

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING  
APRIL 25, 2018  
APPLICATION SUMMARY**

NAME OF PROJECT: Memorial North Park d/b/a/  
CHI Memorial Hospital - Hixson

PROJECT NUMBER: CN1801-002

ADDRESS: 2051 Hamill Road  
Hixson (Hamilton County), TN 37343

LEGAL OWNER: Memorial North Park d/b/a/  
CHI Memorial Hospital - Hixson  
2051 Hamill Road  
Hixson (Hamilton County), TN 37343

OPERATING ENTITY: Not Applicable

CONTACT PERSON: Janice Dyer  
423-495-7687

DATE FILED: January 11, 2018

PROJECT COST: \$8,468,323

FINANCING: Cash Reserves

PURPOSE FOR FILING: Initiation of linear accelerator services

DESCRIPTION:

CHI Memorial Hospital – Hixson (MH-H) is currently a 74-bed satellite hospital of CHI Memorial Health Care System. Memorial Healthcare System’s flagship hospital, CHI Memorial Hospital – Chattanooga (MH-C) is eight miles south of MH-H.

MH-H plans to initiate linear accelerator services through the purchase of a new state-of-the art Varian TrueBeam linear accelerator. If approved, a Siemen Primus linear accelerator that was put into service in 2000 at MH-C will be taken out of service. That will leave MH-C with two linear accelerators installed in 2011 and 2012, respectively. The applicant states that the result is no increase in linear accelerator capacity.

*Note to Agency members: Consent Calendar placement was requested but not approved for the following reason: Although the applicant indicated this was effectively a relocation of linear accelerator (LINAC) services since it would decommission one LINAC at its main campus, it was hesitant to accept a condition limiting the addition of future LINACs at either site to those approved by the CON process. Prior to the implementation of PC 1043, Acts of 2016, the acquisition of major medical equipment, the cost of which exceeds two million dollars, such as an additional LINAC, required a CON. Since it no longer does, anyone having received prior approval to initiate specific health care services such as LINAC services may continue to add additional units without a CON. As such, it was determined this application should receive full consideration by Agency members rather than a recommendation from the executive director. Please see Supplemental 1 (Question 1) for the applicant's response.*

#### SPECIFIC CRITERIA AND STANDARDS REVIEW:

##### MEGAVOLTAGE RADIATION THERAPY

###### Standards and Criteria

###### 1. Utilization Standards for MRT Units.

a. Linear Accelerators not dedicated to performing SRT and/or SBRT procedures:

- i. Full capacity of a Linear Accelerator MRT Unit is 8,736 procedures, developed from the following formula: 3.5 treatments per hour, times 48 hours (6 days of operation, 8 hours per day, or 5 days of operation, 9.6 hours per day), times 52 weeks.
- ii. Linear Accelerator Minimum Capacity: 6,000 procedures per Linear Accelerator MRT Unit annually, except as otherwise noted herein.
- iii. Linear Accelerator Optimal Capacity: 7,688 procedures per Linear Accelerator MRT Unit annually, based on a 12% average downtime per MRT unit during normal business hours annually.
- iv. An applicant proposing a new Linear Accelerator should project a minimum of at least 6000 MRT procedures in the first year of service in its Service Area, building to a minimum of 7,688 procedures per year by the third year of service and for every year thereafter.

*The applicant projects that the linear accelerator will perform 7,214 procedures in Year 1 AND 7,273 procedures in Year 2.*

*It appears that the applicant will meet the first year utilization standard of 6,000 procedures but did not specifically address whether the linear accelerator was expected to meet the minimum 7,688 procedure standard by the third year of operation.*

*It appears that this criterion has been partially met.*

*Criteria 1.b.-e. are not applicable to the proposed project.*

## **2. Need Standards for MRT Units.**

- a. For Linear Accelerators not dedicated solely to performing SRT and/or SBRT procedures, need for a new Linear Accelerator in a proposed Service Area shall be demonstrated if the average annual number of Linear Accelerator procedures performed by existing Linear Accelerators in the proposed Service Area exceeds 6,000.

*In 2016 there were 7 linear accelerators operating at three locations in the service area. The average treatments/unit was 4,956.*

*It appears that this criterion has not been met.*

*Criteria 2.b.-d. are not applicable to the proposed project.*

- e. An exception to the need standards may occur as new or improved technology and equipment or new diagnostic applications for MRT Units develop. An applicant must demonstrate that the proposed MRT Unit offers a unique and necessary technology for the provision of health care services in the proposed Service Area.

*The applicant notes that the new linear accelerator at MH-H will provide a technology upgrade improving treatment options for patients over the linear accelerator being decommissioned at MH-C.*

## **3. Access to MRT Units.**

- a. An MRT unit should be located at a site that allows reasonable access for residents of the proposed Service Area.

*Access will be improved for an estimated 37% of Memorial's existing radiation therapy patient base.*

*It appears that this criterion has been met.*

- b. An applicant for any proposed new Linear Accelerator should document that the proposed location of the Linear Accelerator is within a 45 minute drive time of the majority of the proposed Service Area's population.

*Most patients who are expected to utilize this service at MH-H live within 45 minutes' drive of MH-H.*

- c. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRT units that service the non-Tennessee counties and the impact on MRT unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).  
*The applicant is not including non-Tennessee counties in the service area.*

*It appears that this criterion is not applicable.*

- 4. Economic Efficiencies. All applicants for any proposed new MRT Unit should document that lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

*Clinical leadership at Memorial determined that the proposed linear accelerator was deemed the most advantageous to patients in terms of availability, continuity of care, cost and quality care.*

*It appears that this criterion has been met.*

- 5. Separate Inventories for Linear Accelerators and for other MRT Units. A separate inventory shall be maintained by the HSDA for Linear Accelerators, for Proton Beam Therapy MRT Units, and, if data are available, for Linear Accelerators dedicated to SRT and/or SBRT procedures and other types of MRT Units.



*HSDA maintain separate inventories as noted in the criterion.*

6. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRT Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRT Unit for clinical use.

*The Varian TrueBeam system received FDA approval in December 2012.*

*It appears that this criterion has been met.*

- b. The applicant should demonstrate that the proposed MRT Units shall be housed in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

*A letter from architecture firm Earl Swensson Associates, Inc. affirms the proposed project will meet all standards and requirements.*

*It appears that this criterion has been met.*

- c. The applicant should demonstrate how emergencies within the MRT Unit facility will be managed in conformity with accepted medical practice. Tennessee Open Meetings Act and/or Tennessee Open Records Act.

*The applicant included Emergency protocol documents in Supplemental #1.*

*It appears that this criterion has been met.*

- d. The applicant should establish protocols that assure that all MRT Procedures performed are medically necessary and will not unnecessarily duplicate other services.

*The applicant provided general protocols for the operation and oversight of radiation therapy services. The applicant also notes that treatment decisions are made by patients' physicians in consultation with the patient.*

*It appears that this criterion has been met.*

- e. An applicant proposing to acquire any MRT Unit shall demonstrate that it meets the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO) or a similar accrediting authority such as the National Cancer Institute (CNI). Additionally, all applicants shall commit to obtain accreditation from ASTRO, ACR or a comparable accreditation authority for MRT Services within two years following initiation of the operation of the proposed MRT Unit.

*Memorial follows ASTRO staffing requirements.*

*It appears that this criterion has been met.*

- f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

*MH-H is a full service hospital so that emergency transfer agreements are not necessary.*

*It appears that this criterion has been met.*

- g. All applicants should provide evidence of any onsite simulation and treatment planning services to support the volumes they project and any impact such services may have on volumes and treatment times.

*Treatment planning and CT simulation will be performed at MH-C. The process will include an electronic medical record that will be available to radiation therapy staff at MH-H.*

*Since simulation and treatment planning services are not planned to be onsite, it appears that this criterion has not been met.*

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

*The applicant commits to comply with this requirement.*

*It appears that this criterion has been met.*

8. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:
  - a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

*Service area counties Marion, Rhea, and Sequatchie are designated as medically underserved.*

*It appears that this criterion has been met.*

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

*The applicant does not meet any of the above definitions.*

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

*MH-H is contracted with Medicare and multiple TennCare MCOs.*

*It appears that this criterion has been met.*

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**Staff Summary**

*Note to Agency members: This staff summary is a synopsis of the original application and supplemental responses submitted by the applicant. Any HSDA Staff comments will be presented as a "Note to Agency members" in bold italic.*

**Application Synopsis**

Memorial Hospital - Hixson (MH-H) is a 74 bed satellite hospital located 8 miles north of Memorial Health Care System's flagship hospital, 349 bed Memorial Hospital - Chattanooga (MH-C). Both hospitals have been approved for more beds than are currently licensed, but these beds have not been implemented. The addition of beds at these facilities was allowed by the 10% CON exception that was added to Public Chapter 1043. The licensed bed status of both these hospitals is displayed in the table below.

**MEMORIAL BED CHART**

<b>Hospital</b>	<b>Licensed Beds-2017</b>	<b>10% Exemption (per PC 1043) Beds Allowed in 2017</b>	<b>Total Licensed and Approved Beds</b>	<b>Total Licensed Beds as of April 2018</b>
Memorial Chattanooga	336	33	369	349
Memorial Hixson	69	6	75	74
Total System Beds	405	39	444	423

The Joint Annual Report for 2016 indicates that MH-H was licensed and staffed for 69 beds. Licensed and staffed bed occupancy was 72.5%.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

- *Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).*
- *Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.*

MH-H is proposing to initiate linear accelerator services and purchase a new state of the art Varian TrueBeam linear accelerator. A Siemens Primus linear accelerator that was installed in 2000 at MH-C will be decommissioned and taken out of service. This move will reduce the number of linear accelerators at MH-C from three to two.

The applicant identifies the continuum of cancer services available to patients at both MH-H and MH-C in response to the 3<sup>rd</sup> question in Supplemental #1.

If approved, the applicant projects that the linear accelerator service will begin operation in September 2020.

#### **Facility Information**

- The linear accelerator service will be located in 4,732 square feet (SF) of new renovated space, which includes 1,590 SF of newly constructed space for the linear accelerator vault. The overall cost of the new and renovated space is projected to be \$2,799,901 or \$591.69/SF.
- The applicant identifies the operating hours of the linear accelerator service as Monday-Friday, 8:00 am to 5:00 pm.
- A floor plan drawing for the linear accelerator service is included as Attachment Section A 6B-2. The floor plan identifies, in addition to the linear accelerator vault and treatment area, a waiting area, 2 exam rooms, a patient holding area and nurse work space.

#### **Ownership**

- The applicant is owned by Catholic Health Initiatives (CHS), a not-for-profit system with over 100 hospitals across 17 states. CHI is headquartered in Denver, Colorado.

#### **Need**

##### **Project Need**

The applicant provides the following justification in the application:

- MH-C is decommissioning a linear accelerator put into service in 2000. MH-C could replace this linear accelerator on site without having to apply for a CON; however Memorial wishes to improve access to this service by initiating linear accelerator services at MH-H.
- In 2017 MH-C treated 459 radiation therapy patients from Hixson's proposed service area which represents 37% of Memorial's total radiation therapy patient population. A linear accelerator service at MH-H would reduce travel time for these patients considerably.
- Memorial's radiation therapy treatments have increase 34% from 2015-2017. Memorial currently operates the second-busiest cancer center in the

state second only to Vanderbilt, and performed over 20,000 treatments in 2016.

- In 2013 Memorial received a CON to establish a cancer center in Ooltewah; however it surrendered it in 2017 after it decided a linear accelerator service at MH-H was a superior option.

### **Service Area Demographics**

The applicant's declared primary service area consists of 15 ZIP Codes spanning Hamilton County (9 ZIP Codes), Rhea County (4 ZIP Codes), Marion County (1 ZIP Code), and Sequatchie County (1 ZIP Code). The applicant's projected patient origin is 83.9% Hamilton County, 10.1% Rhea County, 3.7% Marion County, and 2.3% Sequatchie County.

### **Total Population**

- The total population of the service area (4 total county population) is estimated at 438,327 residents in calendar year 2017 increasing by approximately 4.2% to 456,673 residents in CY 2022.
- The total population of the state of Tennessee is expected to grow 5.3% during the same timeframe.
- The percentage of the proposed service area population enrolled in the TennCare program is approximately 19.8%, as compared to the statewide enrollment proportion of 21.1%.
- The proportion of TennCare enrollment to the primary service area's total population ranges 18.6% in Hamilton County to 26.3% in Rhea County.

### **20+ Population**

- The total 20+ population is estimated at 332,554 residents in 2017 increasing approximately 4.3% to 346,692 residents in 2022.
- The age 20+ population in the State of Tennessee overall is expected to increase 5.7% during the same timeframe.

### **Service Area Historical Utilization**

The historical linear accelerator utilization in the 4-County service area is as follows:

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**Historical Linear Accelerator Utilization in the 4-County Service Area**

			2014	2015	2016	'14-'16	2016
County	Hospital	Number of Units	Procs.	Procs.	Procs.	% change	% of Standard*
Hamilton	Memorial Chattanooga	3	15,796	18,296	21,187	+34.1%	117.7%
Hamilton	**Erlanger	2	10,552	11,004	11,328	+7.4%	94.4%
Hamilton	Parkridge	2	3,949	3,228	2,268	-42.6%	18.9%
<b>Totals</b>		<b>7</b>	<b>30,297</b>	<b>33,158</b>	<b>34,693</b>	<b>+14.5%</b>	<b>82.6%</b>

Source: HSDA Medical Equipment Registry and CN1801-002

*\*The State Health Plan Certificate of Need Megavoltage Radiation Therapy Standards and Criteria indicate "need for a new Linear Accelerator in a proposed Service Area shall be demonstrated if the average annual number of Linear Accelerator procedures performed by existing Linear Accelerators in the proposed Service Area exceeds 6,000"*

*\*\*Erlanger also operates a Cyberknife*

- There are 7 linear accelerators in the service area.
- The chart above indicates that linear accelerator volumes at primary service area hospitals increased overall by 14.5%.
- Two of the three linear accelerator providers experienced volume growth between 2014 and 2016.
- Overall, the linear accelerator providers in the service area are operating at 82.6% of the linear accelerator volume standard in 2016. Only Memorial Hospital-Chattanooga exceeded the volume standard.

**Applicant's Historical and Projected Utilization**

- The historical radiation therapy treatments at MH-C and the projected radiation therapy treatments for both MH-C and MH-H are displayed in the Table below.

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**Historical and Projected Linear Accelerator Utilization  
for Memorial Health System**

			2015	2016	2017	Year 1	Year 2
Hospital	Number of Units (2015- 2017)	Number of Units (Year 1-2)	Procs.	Procs.	Procs.	Procs.	Procs.
Memorial-Chattanooga	3	2	18,296	21,187	25,341	26,193	26,410
Memorial-Hixson	0	1	NA	NA	NA	7,214	7,273
Both Facilities Combined	3	3	18,296	21,187	25,341	33,407	33,683

Source: CN1801-002

- MH-H projects 7,214 linear accelerator treatments in Year 1 increasing 0.8% to 7,273 treatments in Year 2.
- MH-H projects to provide approximately 75% of Memorial's total treatments to residents of the service area.
- Total Memorial treatments are expected to increase by 32.9% between 2017 and Year 2.

## **ECONOMIC FEASIBILITY**

### **Project Cost**

The total revised project cost is \$8,468,323. Major costs are:

- Fixed Equipment (Mostly cost of purchasing linear accelerator)-\$3,337,416 or 39.4% of total cost.
- Construction Costs – \$2,799,901 or 33.1% of total cost.
- For other details on Project Cost, see the Project Cost Chart on page 23R of the original application.
- The total construction cost is \$591.69 per square foot (/SF). As reflected in the table below, the construction cost is 79% above the 3rd quartile of statewide CON-approved hospital construction projects from 2014 to 2016. In Supplemental #1 the applicant explains that the cost of construction for a linear accelerator vault is very expensive (almost \$1,000/SF and the small square footage skews the calculated cost upward. For further details see the applicant's response to Question 4 in Supplemental #1.



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**Statewide Hospital Construction Cost per Square Foot  
 2014-2016**

	Renovated Construction	New Construction	Total Construction
<b>1st Quartile</b>	\$160.66/sq. ft.	\$260.18/sq. ft.	\$208.97/sq. ft.
<b>Median</b>	\$218.86/sq. ft.	\$289.85/sq. ft.	\$274.51/sq. ft.
<b>3rd Quartile</b>	\$287.95/sq. ft.	\$395.94/sq. ft.	\$330.50/sq. ft.

Source: HSDA Applicant's Toolbox

**Financing**

- A letter dated January 8, 2018 from the SVP and CFO of CHI Southeast Division and CHI Memorial Health System certifies that CHI Memorial Health Care System has adequate financial resources to fund the project from cash reserves.
- Review of Catholic Health Initiatives Balance Sheet for the period ending June 30, 2017 revealed cash and cash equivalents of \$1,033,166,000, \$4,542,088,000 in total current assets, total current liabilities of \$4,697,502,000 and a current ratio of 0.97 to 1.0.

*Note to Agency Members: Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.*

*In Supplemental #1 the applicant acknowledges the 0.97:1 current ratio and states that Catholic Health Initiatives has over \$5.3 billion to cover capital projects and an additional \$137 million in a capital resource pool to pay for needed capital projects. Locally, CHI Memorial holds \$48.7 million in cash with liquid investments of \$225 million. Financial Statements Notes reference the aforementioned values and reveals CHI Memorial's assets-to-liabilities ratio is 2.62:1.*

**Net Operating Margin Ratio**

- The net operating margin ratio for the total facility is 26.3% in Year 1 and 26.1% in Year 2.

*Note to Agency Members: The net operating margin demonstrates how much revenue is left over after all the variable or operating costs have been paid.*

### Capitalization Ratio

- The applicant reports that MH-H's capitalization ratio at the end of Calendar Year 2017 was 24.6%.

*Note to Agency Members: The capitalization ratio measures the proportion of debt financing in a business's permanent financing mix.*

### Historical Data Chart

- According to the Historical Data Chart, CH-H experienced a net balance (net operating income - [annual principal debt repayment + annual capital expenditure]) of \$2,500,387 for 2015; \$3,300,364 for 2016 and \$3,638,378 for 2016.

### Projected Data Chart

#### Proposed Linear Accelerator

The Projected Data Chart for the applicant's proposed linear accelerator reflects \$26,726,265 in total gross operating revenue on 7,214 procedures in Year 1 (\$3,705/procedure) increasing by approximately 6.6% to \$28,497,548 on 7,326 procedures in Year Two. The Projected Data Chart reflects the following:

- Net operating revenue after bad debt, charity care, and contractual adjustments is expected to average approximately 17% of gross revenue in the first two years of the project.
- The net balance is projected to equal \$2,795,497 in Year One decreasing to \$2,738,516.

#### MH-H Total Facility

The Projected Data Chart for MH-H reflects \$376,931,434 in total gross operating revenue in Year 1 increasing by approximately 3.7% to \$390,841,547 in Year Two. The Projected Data Chart reflects the following:

- Net operating revenue after bad debt, charity care, and contractual adjustments is expected to average approximately 20% of gross revenue in the first two years of the project.
- The net balance is projected to equal \$8,889,359 in Year One decreasing to \$8,886,730 in Year Two.

### Charges

A summary of the applicant's charges for Year 1 of the project is as follows:

- The proposed average gross charge and net charge is \$3,705 and \$644 per linear accelerator procedure, respectively.
- The Medicare allowable charge for most linear accelerator procedure classifications is provided on page 30R of the original application.

- According to the HSDA Equipment Registry, the applicant's linear accelerator \$3,705 average gross charge in Year 1 is above the 2016 statewide linear accelerator 3<sup>rd</sup> Quartile charge of \$2,096.78.

#### **Medicare/TennCare Payor Mix**

- The expected payor mix in Year 1 for the linear accelerator service includes 64.8% for Medicare and 3.5% for TennCare.
- The applicant contracts with three TennCare MCOs in the service area: AmeriGroup, BlueCare, and United Healthcare Community Plan.
- The projected payor mix in Year 1 is noted in the table below.

**Projected Linear Accelerator Service Payor Mix, Year 1**

Payor Source	Gross Revenue Amount	as a % of Total Gross Revenue
Medicare	\$17,326,582	64.8%
TennCare	\$942,949	3.5%
Commercial/Other Managed Care	\$8,762,216	29.1%
Self-Pay	\$0	0.0%
Charity	\$662,485	2.5%
Other (Research/Other Billing)	\$32,032	0.1%
Total	\$26,726,265	100%

Source: CN1801-002, page 33R2

## **PROVIDE HEALTHCARE THAT MEETS APPROPRIATE QUALITY STANDARDS**

### **Licensure**

- MH-H is licensed in good standing with the Tennessee Department of Health as a satellite of Memorial Health Care System.

### **Certification**

- MH-H is Medicare and TennCare certified.

### **Accreditation**

- MH-H is accredited by the Joint Commission. The Radiation Therapy Department is currently preparing to apply for American Society of Therapeutic Radiation and Oncology (ASTRO) accreditation in 2018.

### **Other Quality Standards**

- In the first supplemental response the applicant commits to obtaining and/or maintaining the following:
  - Staffing levels comparable to the staffing chart presented in the CON application

- Licenses in good standing
- TennCare/Medicare certifications
- Three years compliance with federal and state regulations
- Has not been decertified in last three years
- Self-assessment and external peer assessment processes
- Data reporting, quality improvement, and outcome/process monitoring systems
- Accreditation by the American Society of Therapeutic Radiation and Oncology (ASTRO) accreditation in 2018.

## **CONTRIBUTION TO THE ORDERLY DEVELOPMENT**

### **OF HEALTHCARE**

#### **Agreements**

- MH-H contracts with numerous area providers and MCOs for direct and indirect patient care. A complete listing is located in Attachment B-Orderly Development-1 in the original application.

#### **Impact on Existing Providers**

- The effect of the project is to improve consumer access to care. The proposed project should not impact other area providers since no additional capacity is being added to the market.

#### **Staffing**

The applicant's Year One proposed direct patient care staffing for the Hixson location includes the following:

- 1.0 FTE Physicist
- 1.0 FTE Dosimetrist
- 2.0 FTE Radiation Therapist
- **4.0 FTE Total**

*The applicant has submitted the required information on corporate documentation and title and deeds.*

Should the Agency vote to approve this project, the CON would expire in three years.

### **CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:**

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for this applicant.

**CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:**

There are no other Letters of Intent, pending or denied applications for other health care organizations proposing this type of service.

**Outstanding Certificates of Need**

**Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center, CN1412-048A**, has an outstanding Certificate of Need that will expire on May 1, 2019. The project was approved at the March 25, 2015 Agency meeting for the acquisition of a linear accelerator and the initiation of services at Erlanger East Hospital at 1755 Gunbarrel Road, Chattanooga, TN a satellite hospital operating under the license of Erlanger Medical Center, 975 East 3<sup>rd</sup> Street, Chattanooga (Hamilton County), Tennessee. If approved, the new linear accelerator at Erlanger East Hospital will replace a linear accelerator at Erlanger Medical Center reducing the number of linear accelerators at Erlanger Medical Center from two to one. The estimated project cost is **\$10,532,562.00**. *Project Status Update: Based on an April 6, 2018 correspondence from a representative of the applicant the project is progressing forward toward completion with the expectation that the first patient will be treated in early September 2018. The slab for the linear accelerator and framing has been completed. Equipment is targeted for installation on or about August 1, 2018. This CON was extended due to environmental issues identified during predevelopment with a new expiration date of May 1, 2019. At this juncture, it is expected that the project will be completed prior to expiration of the CON and within the limits of the authorized capital expenditure.*

**PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, HEALTH CARE THAT MEETS APPROPRIATE QUALITY STANDARDS, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.**

MAF  
(4/13/18)

## **LETTER OF INTENT**

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**State of Tennessee  
Health Services and Development Agency**

Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

Phone: 615-741-2364

Fax: 615-741-9884

**LETTER OF INTENT**

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper  
(Name of Newspaper)  
of general circulation in Hamilton, Tennessee, on or before January 8, 2018  
(County) (Month / day) (Year)  
for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Memorial North Park dba CHI Memorial Hospital - Hixson  
(Name of Applicant)

Hospital  
(Facility Type-Existing)

owned by: Memorial Health Care System, Inc. with an ownership type of not-for-profit corporation  
and to be managed by itself intends to file an application for a Certificate of Need for the establishment of linear accelerator services at its campus located at 2051 Hamill Road, Hixson, Hamilton County TN 37343. The project involves renovation of approximately 1,301 square feet and new construction of approximately 3,431 square feet, acquisition of a linear accelerator, and construction of a linear accelerator vault. CHI Memorial Hospital - Hixson is a satellite facility of CHI Memorial Hospital - Chattanooga. CHI Memorial Hospital - Chattanooga will decommission one linear accelerator at its downtown campus located at 2525 deSales Avenue, Chattanooga, Hamilton County TN 37404, effectively relocating existing linear accelerator capacity within the same county to CHI Memorial Hospital - Hixson. No hospital beds are affected by this project. The total project cost is estimated at \$ 8,468,322.88.

The anticipated date of filing the application is: January 12, 2018

The contact person for this project is Janice Dyer, Director of Strategic Planning  
(Contact Name) (Title)

who may be reached at: CHI Memorial Health Care System 2525 deSales Avenue  
(Company Name) (Address)

Chattanooga TN 37404 423/495-7687  
(City) (State) (Zip Code) (Area Code /Phone Number)

Janice Dyer 1/4/2018 Janice\_Dyer@memorial.org  
(Signature) (Date) (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

# **ORIGINAL APPLICATION**

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Memorial North Park Hospital  
dba  
CHI Memorial Hospital - Hixson  
(Copy)

**CN1801-002**



January 12, 2018

Melanie Hill  
Executive Director  
Tennessee Health Services and Development Agency  
Andrew Jackson State Office Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

**RE: REQUEST FOR CONSENT CALENDAR**

Dear Ms. Hill,

Memorial North Park dba CHI Memorial Hospital – Hixson kindly requests that the pursuant application be considered for the Consent Calendar. This project seeks to relocate existing linear accelerator capacity within the same county (Hamilton County) to better serve existing Memorial patients. The project will simultaneously update technology to meet today's standards of care. Considering the project will not result in the addition of new linear accelerator capacity to the market, we believe consent calendar is appropriate.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in dark ink that reads "Andrew McGill".

Andrew McGill  
Senior Vice President, Strategy & Business Development  
CHI Memorial

Enclosure

# CERTIFICATE OF NEED APPLICATION



Memorial North Park Hospital  
dba  
**CHI Memorial Hospital – Hixson**

*Application for Approval of the CHI Memorial Health Care System initiating  
Linear Accelerator Services on its Hixson Campus in Hamilton County*

# APPLICATION SECTION A

Applicant Profile  
Executive Summary  
Project Details



State of Tennessee  
Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243  
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

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**CERTIFICATE OF NEED APPLICATION**

**SECTION A: APPLICANT PROFILE**

**1. Name of Facility, Agency, or Institution**

Memorial North Park dba CHI Memorial Hospital - Hixson  
Name

2051 Hamill Road  
Street or Route

Hamilton  
County

Hixson  
City

TN  
State

37343  
Zip Code

Website address: www.memorial.org

Note: The facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.

**2. Contact Person Available for Responses to Questions**

Janice Dyer  
Name

Director of Strategic Planning  
Title

CHI Memorial Health Care System  
Company Name

Janice Dyer@memorial.org  
Email address

2525 deSales Avenue  
Street or Route

Chattanooga  
City

TN  
State

37404  
Zip Code

Associate  
Association with Owner

423-495-7687  
Phone Number

423-495-6260  
Fax Number

**NOTE:** **Section A** is intended to give the applicant an opportunity to describe the project. **Section B** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care.

Please answer all questions on **8½" X 11" white paper, clearly typed and spaced, single or double-sided, in order and sequentially numbered. In answering, please type the question and the response.** All questions must be answered. If an item does not apply, please indicate "N/A" (not applicable). **Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment, i.e., Attachment A.1, A.2, etc. The last page of the application should be a completed signed and notarized affidavit.**

### 3. SECTION A: EXECUTIVE SUMMARY

#### A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

- 1) Description – Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant;

Response: CHI Memorial Hospital – Hixson is a 74-bed, satellite hospital of CHI Memorial Health Care System, located eight miles from the flagship hospital downtown, CHI Memorial Hospital – Chattanooga, a 336-bed, tertiary care hospital. This application will refer to the two hospitals as Memorial Hixson and Memorial Chattanooga, and the system – inclusive of these two facilities – as Memorial.

Memorial Hixson seeks certificate of need approval to initiate linear accelerator services. A linear accelerator located at Memorial Chattanooga will simultaneously be taken out of service, resulting in no additional linear accelerator capacity in the market. This relocation of existing capacity will provide more convenient cancer care to a significant number of Memorial's existing radiation therapy patient base.

- 2) Ownership structure;

Response: Memorial is owned by Catholic Health Initiatives (CHI), a not-for-profit system with over 100 hospitals across 17 states. CHI is headquartered in Denver, Colorado.

- 3) Service area;

Response: Memorial Hixson's service area for linear accelerator services includes 15 zip codes north of the Tennessee River that span Hamilton, Rhea, Marion and Sequatchie Counties. Memorial Chattanooga provides radiation therapy to a significant number of patients in this area. The project will provide patients the opportunity to receive radiation therapy treatment closer to home.

- 4) Existing similar service providers;

Response: No radiation therapy services currently exist in the proposed service area. Current residents are principally served by larger, tertiary hospitals concentrated in Chattanooga's downtown.

- 5) Project cost;

Response: \$8,468,323

- 6) Funding;

Response: The project cost will be funded by contribution from the parent entity.

- 7) Financial Feasibility including when the proposal will realize a positive financial margin; and

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Response: The project is financially feasible with positive operating margins realized within the first year of operation.

8) Staffing.

Response: The radiation therapy service at Memorial Hixson will be staffed by board-certified radiation oncologists, a physicist, dosimetrist, nurse, and radiation therapists. The clinical staff will be supported by registration and reception staff along with a programming specialist for the needed technological platforms. The staffing model follows the guidelines set forth by the American Society for Radiation Oncology (ASTRO).

**B. Rationale for Approval**

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need;

Response: Memorial Chattanooga's oldest linear accelerator, a Siemens Primus put into service in 2000, is in need of replacement. While this technology could be replaced at the downtown campus without a CON, Memorial seeks to serve patients better by improving access to this much-needed service. The proposed linear accelerator at Hixson will make radiation therapy services in the proposed service area more convenient for area patients. In 2017, Memorial Chattanooga treated 459 radiation therapy patients from the Hixson proposed service area; this represented 37% of Memorial's total radiation therapy patient population. A Hixson location would considerably decrease travel time for these patients.

Memorial's radiation therapy treatments have grown considerably in recent years, increasing 34% from 2015 to 2017. Memorial currently operates the second-busiest cancer center in the state of Tennessee, second only to Vanderbilt University Medical Center. In 2016 both Memorial and Vanderbilt were the only two facilities in the state to perform over 20,000 treatments at a single facility. Memorial's commitment to quality, patient-centered care seeks to treat these patients close to home.

Memorial Hixson would purchase a new, state-of-the-art Varian TrueBeam® linear accelerator, coincidentally taking out of service the outdated Siemens Primus linear accelerator located at Memorial Chattanooga that was put into service in June of 2000. Memorial Chattanooga's two other linear accelerators in operation were installed in 2011 and 2012, respectively.

In 2012, Memorial received unanimous certificate of need approval for the establishment of a satellite cancer center to be located in Ooltewah, with an extension granted in 2015. This CON also approved the relocation of a linear accelerator from Memorial Chattanooga. Memorial subsequently surrendered that CON in the spring of 2017. Memorial Hixson has been determined to be the superior option. Tennessee Oncology, the largest oncology group in the state, has a significant presence on the Memorial Hixson campus, and the group strongly supports the relocation of linear accelerator capacity to the Memorial Hixson site. See Attachment A-3B-1 for the physician letter of support.

Response: The total project cost is estimated at \$8,468,323. The project cost will be funded by contributions from the parent entity, CHI. The project is financially feasible with positive operating margins in the first year of operation.

## 3) Appropriate Quality Standards; and

Response: Memorial Hixson commits to maintaining the highest level of quality standards. Memorial's Department of Radiation Oncology is currently seeking accreditation by ASTRO and is already accredited by the Commission on Cancer.

## 4) Orderly Development to adequate and effective health care.

Response: The relocation of radiation therapy services to Memorial Hixson will improve access for a large number of patients living north of the Tennessee River. No other linear accelerator exists in the proposed service area and current patients must travel to a congested, downtown location for care. This project does not result in any new linear accelerator capacity as older technology will be taken out of service at Memorial Chattanooga.

**C. Consent Calendar Justification**

If Consent Calendar is requested, please provide the rationale for an expedited review.

A request for Consent Calendar must be in the form of a written communication to the Agency's Executive Director at the time the application is filed.

Response: Request for consent calendar consideration is attached to this application.



**A. Owner of the Facility, Agency or Institution**Memorial North Park dba CHI Memorial Hospital - Hixson  
Name

423-495-7687

Phone Number

2051 Hamill Road

Hamilton

Street or Route

County

Hixson

TN

37343

City

State

Zip Code

**B. Type of Ownership of Control (Check One)**

A. Sole Proprietorship

F. Government (State of TN or  
Political Subdivision)

B. Partnership

G. Joint Venture

C. Limited Partnership

H. Limited Liability Company

D. Corporation (For Profit)

I. Other (Specify)

E. Corporation (Not-for-  
Profit)

X

Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence. Please provide documentation of the active status of the entity from the Tennessee Secretary of State's web-site at <https://tnbear.tn.gov/ECommerce/FilingSearch.aspx>. **Attachment Section A-4A.**

Response: See Attachment A-4A-1 for a copy of the corporate charter and Attachment A-4A-2 for a copy of the Tennessee Secretary of State's active status confirmation.

**Describe** the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% ownership (direct or indirect) interest.

**5. Name of Management/Operating Entity (If Applicable)**

Not applicable

Name

Street or Route

County

City

State

Zip Code

Website address:

**For new facilities or existing facilities** without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract. **Attachment Section A-5.**

**6A. Legal Interest in the Site of the Institution (Check One)**

- |                                     |                             |                    |                             |
|-------------------------------------|-----------------------------|--------------------|-----------------------------|
| A. Ownership                        | <u>    X    </u>            | D. Option to Lease | <u>                    </u> |
| B. Option to Purchase               | <u>                    </u> | E. Other (Specify) | <u>                    </u> |
| C. Lease of <u>          </u> Years | <u>                    </u> |                    |                             |

**Check appropriate line above:** For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements **must include** anticipated purchase price. Lease/Option to Lease Agreements **must include** the actual/anticipated term of the agreement **and** actual/anticipated lease expense. The legal interests described herein **must be valid** on the date of the Agency's consideration of the certificate of need application.

Response: See Attachment A-6A for a copy of the Hixson campus deed.

**6B. Attach a copy of the site's plot plan, floor plan, and if applicable, public transportation route to and from the site on an 8 1/2" x 11" sheet of white paper, single or double-sided. DO NOT SUBMIT BLUEPRINTS.** Simple line drawings should be submitted and need not be drawn to scale.

- 1) Plot Plan **must include**:
  - a. Size of site (***in acres***);
  - b. Location of structure on the site;
  - c. Location of the proposed construction/renovation; and
  - d. Names of streets, roads or highway that cross or border the site.

Response: See Attachment A-6B-1 for a copy of the Hixson plot plan.

- 2) Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. On an 8 1/2 by 11 sheet of paper or as many as necessary to illustrate the floor plan.

Response: See Attachment A-6B-2 for a copy of the project floor plan.

- 3) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: Memorial Hixson is located at the intersection of two major roadways, Highways 153 and 319. It is also proximate to Northpark Mall Drive, which intersects with the north entrance to the Memorial Hixson campus. The Chattanooga Regional Transportation Authority provides public transportation to this north entrance

**Attachment Section A-6A, 6B-1 a-d, 6B-2, 6B-3.**

**7. Type of Institution (Check as appropriate--more than one response may apply)**

- |  |          |  |       |
|--|----------|--|-------|
| A. Hospital (Specify) _____  | <u>X</u> | H. Nursing Home  | _____ |
| B. Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty        | _____    | I. Outpatient Diagnostic Center  | _____ |
| C. ASTC, Single Specialty  | _____    | J. Rehabilitation Facility   | _____ |
| D. Home Health Agency  | _____    | K. Residential Hospice   | _____ |
| E. Hospice   | _____    | L. Nonresidential Substitution-Based Treatment Center for Opiate Addiction | _____ |
| F. Mental Health Hospital  | _____    | M. Other (Specify) _____   | _____ |
| G. Intellectual Disability Institutional Habilitation Facility ICF/IID | _____    |  |       |

Check appropriate lines(s).

**8. Purpose of Review (Check appropriate lines(s) – more than one response may apply)**

- |   |          |   |       |
|---|----------|---|-------|
| A. New Institution  | _____    | F. Change in Bed Complement   | _____ |
| B. Modifying an ASTC with limitation still required per CON   | _____    | [Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation] |       |
| C. Addition of MRI Unit   | _____    | G. Satellite Emergency Dept.  | _____ |
| D. Pediatric MRI  | _____    | H. Change of Location   | _____ |
| E. Initiation of Health Care Service as defined in T.C.A. §68-11-1607(4) (Specify) <u>Radiation Therapy</u> | <u>X</u> | I. Other (Specify) _____  | _____ |

**9. Medicaid/TennCare, Medicare Participation**

MCO Contracts [Check all that apply]

X AmeriGroup X United Healthcare Community Plan X BlueCare \_\_\_\_\_ TennCare Select

Medicare Provider Number 44-0091

Medicaid Provider Number 0440091

Certification Type \_\_\_\_\_

If a new facility, will certification be sought for Medicare and/or Medicaid/TennCare?

Medicare \_\_Yes \_\_No X N/A      Medicaid/TennCare \_\_Yes \_\_No X N/A

**10. Bed Complement Data**

A. Please indicate current and proposed distribution and certification of facility beds.

	<u>Current Licensed</u>	<u>Beds Staffed</u>	<u>Beds Proposed</u>	<u>*Beds Approved</u>	<u>**Beds Exempted</u>	<u>TOTAL Beds at Completion</u>
1) Medical	64	64			1	65
2) Surgical						
3) ICU/CCU	10	10				10
4) Obstetrical						
5) NICU						
6) Pediatric						
7) Adult Psychiatric						
8) Geriatric Psychiatric						
9) Child/Adolescent Psychiatric						
10) Rehabilitation						
11) Adult Chemical Dependency						
12) Child/Adolescent Chemical Dependency						
13) Long-Term Care Hospital						
14) Swing Beds						
15) Nursing Home – SNF (Medicare only)						
16) Nursing Home – NF (Medicaid only)						
17) Nursing Home – SNF/NF (dually certified Medicare/Medicaid)						
18) Nursing Home – Licensed (non-certified)						
19) ICF/IID						
20) Residential Hospice						
<b>TOTAL</b>	<b>74</b>	<b>74</b>			<b>1</b>	<b>75</b>

\*Beds approved but not yet in service

\*\*Beds exempted under 10% per 3 year provision

B. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the applicant facility's existing services. **Attachment Section A-10.**

Response: Not Applicable

C. Please identify all the applicant's outstanding Certificate of Need projects that have a licensed bed change component. If applicable, complete chart below.

Response: Not Applicable

<u>CON Number(s)</u>	<u>CON Expiration Date</u>	<u>Total Licensed Beds Approved</u>

**11. Home Health Care Organizations – Home Health Agency, Hospice Agency (excluding Residential Hospice), identify the following by checking all that apply:**

Response: Not Applicable

	Existing Licensed County	Parent Office County	Proposed Licensed County		Existing Licensed County	Parent Office County	Proposed Licensed County
Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lauderdale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bedford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lawrence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lewis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lincoln	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Blount	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Loudon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bradley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	McMinn	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Campbell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	McNairy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cannon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Macon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carroll	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Madison	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Marion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cheatham	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Marshall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chester	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Maury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Claiborne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Meigs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clay	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Monroe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cocke	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Montgomery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Coffee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Moore	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Crockett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Morgan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cumberland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Obion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Davidson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Overton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decatur	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Perry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
DeKalb	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Pickett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dickson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Polk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dyer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Putnam	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fayette	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Rhea	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fentress	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Roane	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Franklin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Robertson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gibson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Rutherford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Giles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Scott	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grainger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sequatchie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greene	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sevier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grundy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Shelby	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hamblen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hamilton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Stewart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hancock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sullivan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hardeman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sumner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hardin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tipton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hawkins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Trousdale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Haywood	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unicoi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Henderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Union	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Henry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Van Buren	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hickman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Warren	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Houston	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Washington	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Humphreys	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wayne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jackson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Weakley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jefferson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	White	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Johnson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Williamson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knox	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wilson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lake	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

## 12. Square Footage and Cost Per Square Footage Chart –

Unit/Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage		
					Renovated	New	Total
Linear Accelerator Vault	Memorial Glenwood	Approx. 1,400	NA	Memorial Hixson	-	1,590	1,590
Cancer Center	NA	NA	NA	Memorial Hixson	1,301	1,841	3,142
Unit/Department GSF Sub-Total					1,301	3,431	4,732
Other GSF Total					-	-	-
Total GSF					1,301	3,431	4,732
*Total Cost					570,862	2,229,039	2,799,901
**Cost Per Square Foot					438.79	650.00	591.69
Cost per Square Foot Is Within Which Range (For quartile ranges, please refer to the Applicant's Toolbox on <a href="http://www.tn.gov/hsda">www.tn.gov/hsda</a> )					<input type="checkbox"/> Below 1 <sup>st</sup> Quartile	<input type="checkbox"/> Below 1 <sup>st</sup> Quartile	<input type="checkbox"/> Below 1 <sup>st</sup> Quartile
					<input type="checkbox"/> Between 1 <sup>st</sup> and 2 <sup>nd</sup> Quartile	<input type="checkbox"/> Between 1 <sup>st</sup> and 2 <sup>nd</sup> Quartile	<input type="checkbox"/> Between 1 <sup>st</sup> and 2 <sup>nd</sup> Quartile
					<input type="checkbox"/> Between 2 <sup>nd</sup> and 3 <sup>rd</sup> Quartile	<input type="checkbox"/> Between 2 <sup>nd</sup> and 3 <sup>rd</sup> Quartile	<input type="checkbox"/> Between 2 <sup>nd</sup> and 3 <sup>rd</sup> Quartile
					<input checked="" type="checkbox"/> Above 3 <sup>rd</sup> Quartile	<input checked="" type="checkbox"/> Above 3 <sup>rd</sup> Quartile	<input checked="" type="checkbox"/> Above 3 <sup>rd</sup> Quartile

\* The Total Construction Cost should equal the Construction Cost reported on line A5 of the Project Cost Chart.

\*\* Cost per Square Foot is the construction cost divided by the square feet. Please do not include contingency costs.

**13. MRI, PET, and/or Linear Accelerator**

1. Describe the acquisition of any Magnetic Resonance Imaging (MRI) scanner that is adding a MRI scanner in counties with population less than 250,000 or initiation of pediatric MRI in counties with population greater than 250,000 and/or
2. Describe the acquisition of any Positron Emission Tomographer (PET) or Linear Accelerator if initiating the service by responding to the following:

A. Complete the chart below for acquired equipment.

<input checked="" type="checkbox"/> Linear Accelerator	Mev _____	Varian _____	Types: _____	<input type="checkbox"/> SRS	<input checked="" type="checkbox"/> IMRT	<input type="checkbox"/> IGRT	<input checked="" type="checkbox"/> SBRT
					Other _____		
	Total Cost*:	\$3,108,850		<input checked="" type="checkbox"/> By Purchase			
				<input type="checkbox"/> By Lease	Expected Useful Life	7	
					(yrs)		
	<input checked="" type="checkbox"/> New	<input type="checkbox"/> Refurbished		<input type="checkbox"/> If not new, how old? (yrs)			
<input type="checkbox"/> MRI	Tesla: _____	Magnet: _____		<input type="checkbox"/> Breast	<input type="checkbox"/> Extremity		
				<input type="checkbox"/> Open	<input type="checkbox"/> Short Bore	<input type="checkbox"/> Other _____	
	Total Cost*:			<input type="checkbox"/> By Purchase			
				<input type="checkbox"/> By Lease	Expected Useful Life		
					(yrs)		
	<input type="checkbox"/> New	<input type="checkbox"/> Refurbished		<input type="checkbox"/> If not new, how old? (yrs)			
<input type="checkbox"/> PET	<input type="checkbox"/> PET only	<input type="checkbox"/> PET/CT	<input type="checkbox"/> PET/MRI				
				<input type="checkbox"/> By Purchase			
	Total Cost*:			<input type="checkbox"/> By Lease	Expected Useful Life		
					(yrs)		
	<input type="checkbox"/> New	<input type="checkbox"/> Refurbished		<input type="checkbox"/> If not new, how old? (yrs)			

\* As defined by Agency Rule 0720-9-.01(13)

- B. In the case of equipment purchase, include a quote and/or proposal from an equipment vendor. In the case of equipment lease, provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.

Response: The equipment quote is \$3,108,850; see Attachment A-13-2B for a copy of the equipment purchase quote.

- C. Compare lease cost of the equipment to its fair market value. Note: Per Agency Rule, the higher cost must be identified in the project cost chart.

Response: Not applicable. Memorial Hixson will purchase the equipment.

## D. Schedule of Operations:

Location	Days of Operation (Sunday through Saturday)	Hours of Operation (example: 8 am – 3 pm)
Fixed Site: <i>Memorial Hixson</i>	<u>Monday – Friday</u>	<u>8:00 am – 5:00 pm</u>
Mobile Locations (Applicant)		
(Name of Other Location)		
(Name of Other Location)		

## E. Identify the clinical applications to be provided that apply to the project.

Response: The linear accelerator at Memorial Hixson will provide radiation therapy treatments to a wide variety of cancer patients, including, but not limited to, breast, lung, rectal, prostate, and head and neck cancers. The linear accelerator will provide conventional EBRT, IMRT and SBRT treatments. Though the equipment being purchased could provide SRS services, those treatments will be maintained at Memorial Chattanooga and will not be performed at the Hixson location.

## F. If the equipment has been approved by the FDA within the last five years provide documentation of the same.

Response: The Varian TrueBeam® system received FDA approval in December of 2012.



## APPLICATION SECTION B

Need  
Economic Feasibility  
Contribution to Orderly Development

## **SECTION B: GENERAL CRITERIA FOR CERTIFICATE OF NEED**

In accordance with T.C.A. § 68-11-1609(b), “no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of health care.” Further standards for guidance are provided in the State Health Plan developed pursuant to T.C.A. § 68-11-1625.

The following questions are listed according to the four criteria: (1) Need, (2) Economic Feasibility, (3) Applicable Quality Standards, and (4) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper, single-sided or double sided. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer, unless specified otherwise. ***If a question does not apply to your project, indicate “Not Applicable (NA).”***

### **QUESTIONS**

#### **NEED**

1. Provide a response to each criterion and standard in Certificate of Need Categories in the State Health Plan that are applicable to the proposed project. Criteria and standards can be obtained from the Tennessee Health Services and Development Agency or found on the Agency’s website at <http://www.tn.gov/hsda/article/hsda-criteria-and-standards>.

1. Utilization Standards for MRT Units.

Response: Memorial Hixson seeks to relocate existing linear accelerator capacity to a site more convenient for a significant number of patients already seeking radiation therapy services at Memorial Chattanooga. The project will not result in additional linear accelerator capacity. In the interest of providing complete information, responses to the standards and criterion for megavoltage radiation therapy units will be provided to the extent relevant.

- a. Linear Accelerators not dedicated to performing SRT and/or SBRT procedures:
  - i. Full capacity of a Linear Accelerator MRT Unit is 8,736 procedures, developed from the following formula: 3.5 treatments per hour, times 48 hours (6 days of operation, 8 hours per day, or 5 days of operation, 9.6 hours per day), times 52 weeks.
  - ii. Linear Accelerator Minimum Capacity: 6,000 procedures per Linear Accelerator MRT Unit annually, except as otherwise noted herein.
  - iii. Linear Accelerator Optimal Capacity: 7,688 procedures per Linear Accelerator MRT Unit annually, based on a 12% average downtime per MRT unit during normal business hours annually.
  - iv. An applicant proposing a new Linear Accelerator should project a minimum of at least 6000 MRT procedures in the first year of service in its Service Area, building to a minimum of 7,688 procedures per year by the third year of service and for every year thereafter.

Response: Utilization in Year 1 for the Memorial Hixson linear accelerator is projected at 7,214 treatments. This exceeds the minimum capacity of 6,000 per year for linear accelerators not dedicated to performing SRT and/or SBRT procedures. Memorial's total treatments in 2017 for its three linear accelerators located at the downtown campus were 25,341, averaging 8,447 treatments per unit, above the optimal capacity standard of 7,688 annual treatments per linear accelerator.

- b. For Linear Accelerators dedicated to performing only SRT procedures, full capacity is 500 annual procedures.

Response: Not applicable

- c. For Linear Accelerators dedicated to performing only SRT/SBRT procedures, full capacity is 850 annual procedures.

Response: Not applicable

- d. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for Linear Accelerators develop. An applicant must demonstrate that the proposed Linear Accelerator offers a unique and necessary technology for the provision of health care services in the proposed Service Area.

Response: Not applicable

- e. Proton Beam MRT Units. As of the date of the approval and adoption of these Standards and Criteria, insufficient data are available to enable detailed utilization standards to be developed for Proton Beam MRT Units.

Response: Not applicable

## 2. Need Standards for MRT Units.

- a. For Linear Accelerators not dedicated solely to performing SRT and/or SBRT procedures, need for a new Linear Accelerator in a proposed Service Area shall be demonstrated if the average annual number of Linear Accelerator procedures performed by existing Linear Accelerators in the proposed Service Area exceeds 6,000.

Response: This project does not create any additional linear accelerator capacity in the market. In support of the decision to not add capacity, however, the utilization of providers within the counties included in the proposed service area is shown below.

Data from the HSDA Equipment Utilization Registry					
Provider	Number of Units	Total Treatments			Average Treatments / Unit (2016)
		2014	2015	2016	
Memorial Chattanooga	3	15,796	18,926	21,187	7,062
Erlanger Medical Center	2	10,552	11,004	11,238	5,619
Parkridge Medical Center	2	3,949	3,228	2,268	1,134
<b>Total</b>	<b>7</b>	<b>30,297</b>	<b>33,158</b>	<b>34,693</b>	<b>4,956</b>

- b. For Linear Accelerators dedicated to performing only SRT procedures, need in a proposed Service Area shall be demonstrated if the average annual number of MRT procedures performed by existing Linear Accelerators dedicated to performing only SRT procedures in a proposed Service Area exceeds 300, based on a full capacity of 500 annual procedures.

Response: Not applicable

- c. For Linear Accelerators dedicated to performing only SRT/SBRT procedures, need in a proposed Service Area shall be demonstrated if the average annual number of MRT procedures performed by existing Linear Accelerators dedicated to performing only SRT/SBRT procedures in a proposed Service Area exceeds 510, based on a full capacity of 850 annual procedures.

Response: Not applicable

- d. Need for a new Proton Beam MRT Unit: Due to the high cost and extensive service areas that are anticipated to be required for these MRT Units, an applicant proposing a new Proton Beam MRT Unit shall provide information regarding the utilization and service areas of existing or planned Proton Beam MRT Units' utilization and service areas (including those that have received a CON), if they provide MRT services in the proposed Service Area and if that data are available, and the impact its application, if granted, would have on those other Proton Beam MRT Units.

Response: Not applicable

- e. An exception to the need standards may occur as new or improved technology and equipment or new diagnostic applications for MRT Units develop. An applicant must demonstrate that the proposed MRT Unit offers a unique and necessary technology for the provision of health care services in the proposed Service Area.

Response: Though this project does not create additional linear accelerator capacity in the market, need for this project is also established by the need for improved technology. Memorial Chattanooga's proposed linear accelerator to be taken out of service, the Siemens Primus, was installed in 2000 and only provides conventional EMRT treatment. Memorial has seen its patient volumes on the newer machines – those that provide IMRT and SBRT - grow significantly in recent years, increasing by 36% from 2014 to 2017. The proposed technology upgrade will improve treatment options for patients as well as better balance the work load of each machine.

### 3. Access to MRT Units.

- a. An MRT unit should be located at a site that allows reasonable access for residents of the proposed Service Area.

Response: Access will be improved for an estimated 37% of Memorial's existing radiation therapy patient base. No linear accelerator currently exists in the proposed service area.

- b. An applicant for any proposed new Linear Accelerator should document that the proposed location of the Linear Accelerator is within a 45 minute drive time of the majority of the proposed Service Area's population.

Response: Most patients who are anticipated to utilize this service live within a 45 minute drive of Memorial Hixson. The proposed facility is located at the intersection of two main thoroughfares and offers convenient parking. The proposed facility will also be located on the ground floor of the building with its own designated entrance, making pedestrian transit easy as well.

- c. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRT units that service the non-Tennessee counties and the impact on MRT unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

Response: Not applicable

#### 4. Economic Efficiencies.

All applicants for any proposed new MRT Unit should document that lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

Response: Clinical leadership at Memorial, through a cross-functional team of radiation oncologists, physicists, and administrative leaders, evaluated various linear accelerators to replace the outdated unit. The proposed linear accelerator, the Varian TrueBeam®, has the features necessary for state-of-the-art radiation therapy and the clinical applications needed for optimum patient care. The proposed machine was deemed to be the most advantageous for Memorial patients in terms of availability, continuity of care, cost, and quality care.

#### 5. Separate Inventories for Linear Accelerators and for other MRT Units.

A separate inventory shall be maintained by the HSDA for Linear Accelerators, for Proton Beam Therapy MRT Units, and, if data are available, for Linear Accelerators dedicated to SRT and/or SBRT procedures and other types of MRT Units.

Response: This item requires certain information to be maintained by the HSDA and does not require a response by the applicant.

#### 6. Patient Safety and Quality of Care.

The applicant shall provide evidence that any proposed MRT Unit is safe and effective for its proposed use.

- a. The United States Food and Drug Administration (FDA) must certify the proposed MRT Unit for clinical use.

Response: The Varian TrueBeam® system received FDA approval in December of 2012.

- b. The applicant should demonstrate that the proposed MRT Units shall be housed in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

Response: Per the expertise of Earl Swensson Associates, Inc. architecture firm, the physical environment proposed for the linear accelerator conforms to applicable requirements. See Attachment B-Economic feasibility-1E for a copy of the architect letter.

- c. The applicant should demonstrate how emergencies within the MRT Unit facility will be managed in conformity with accepted medical practice. Tennessee Open Meetings Act and/or Tennessee Open Records Act.

Response: Memorial has institutional protocols in place to address emergencies, with specific protocols that are implemented when an emergency occurs on the hospital campus but outside of the hospital inpatient setting. Memorial is not a public hospital, and thus is not subject to the Tennessee Open Meetings Act and/or the Tennessee Open Records Act.

- d. The applicant should establish protocols that assure that all MRT Procedures performed are medically necessary and will not unnecessarily duplicate other services.

Response: Memorial maintains protocols to ensure medically necessary and non-duplicative treatment. Physician evaluation of individual patient needs are based upon national guidelines in coordination with a multi-specialty team. Memorial's board-certified radiation oncologists are responsible for entering and approving all prescriptions for initiating radiation therapy treatment to patients, contingent on appropriate patient diagnosis and clinical eligibility.

- e. An applicant proposing to acquire any MRT Unit shall demonstrate that it meets the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO) or a similar accrediting authority such as the National Cancer Institute (CNI). Additionally, all applicants shall commit to obtain accreditation from ASTRO, ACR or a comparable accreditation authority for MRT Services within two years following initiation of the operation of the proposed MRT Unit.

Response: Memorial follows ASTRO staffing requirements for all radiation therapy positions providing treatment on three linear accelerators.

- f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Response: Memorial Hixson is a full-service acute care hospital, thus emergency transfer agreements are not appropriate.

- g. All applicants should provide evidence of any onsite simulation and treatment planning services to support the volumes they project and any impact such services may have on volumes and treatment times.

Response: Treatment planning and CT simulation will be performed at Memorial Chattanooga. This centralized process will include a radiation oncology electronic medical record that will be accessible to all radiation therapy staff at the Hixson location, enabling seamless patient information sharing and support across campuses. All essential staff needed for radiation treatment will be located at Memorial Hixson. The centralized treatment planning service will be continuously evaluated by administrative, physician, and clinical leadership to ensure optimum patient service.

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

Response: The applicant commits to comply with this requirement.

8. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care." the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

Response: The proposed service area includes parts of Marion, Rhea, and Sequatchie Counties, all of which are designated as medically underserved areas by the HRSA.

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Response: Not applicable

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

Response: Memorial Hixson is contracted with Medicare and multiple TennCare MCOs.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any, and how it relates to related previously approved projects of the applicant.

Response: Memorial has a well-established position as a leading provider of cancer care, including radiation therapy services. This project is consistent with Memorial's long range plan to provide high quality, accessible cancer care to the community. This project also follows Memorial's most recent Community Health Needs Assessment Implementation Plan by improving access to needed healthcare services throughout the region.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map for the Tennessee portion of the service area using the map on the following page, clearly marked to reflect the service area as it relates to meeting the requirements for CON criteria and standards that may apply to the project. Please include a discussion of the inclusion of counties in the border states, if applicable. **Attachment – Section – Need-3.**

Response: See Attachment B-Need-3-1 for the county level map and Attachment B-Need-3-2 for a detailed visual of the service area.

The proposed service includes 15 zip codes spanning Hamilton, Rhea, Sequatchie and Marion Counties. These zip codes were identified based on historical patient origin trends to Memorial's existing radiation therapy service downtown, and for those residents whose travel time would be shortened by a Hixson location.

Please complete the following tables, if applicable: -

Historical for Memorial Chattanooga - 2017:

Service Area County	Historical Utilization - County Residents	% of Total Patients
Hamilton County <sup>1</sup>	398	30.7%
Rhea County <sup>2</sup>	48	3.7%
Marion County <sup>3</sup>	17	1.3%
Sequatchie County <sup>4</sup>	10	0.8%
Other Hamilton County Zip Codes & Other Counties <sup>5</sup>	823	63.5%
Total	1,296	100%

Projected for Memorial Hixson (Year 1):

Service Area County	Historical Utilization - County Residents	% of Total Patients
Hamilton County <sup>1</sup>	298	83.9%
Rhea County <sup>2</sup>	36	10.1%
Marion County <sup>3</sup>	13	3.7%
Sequatchie County <sup>4</sup>	8	2.3%
Total	355	100%

<sup>1</sup> Includes 9 zip codes: 37341, 37343, 37363, 37373, 37377, 37379, 37405, 37415, and 37416

<sup>2</sup> Includes 4 zip codes: 37321, 37332, 37338, 37381

<sup>3</sup> Includes 1 zip code; 37397

<sup>4</sup> Includes 1 zip code: 37327

<sup>5</sup> Includes 21 zip codes in Hamilton County and zip codes in all other counties not listed above



## 4. A. 1) Describe the demographics of the population to be served by the proposal.

Response: The proposed service was created using zip code geography. The information requested below is not available at the zip code level, so volumes for the respective counties as a whole are supplied.

The proposed service area represents a growing population made up of both urban and rural residents. The overall target population (adults ages 20+) projected growth rate for the service area from 2017 to 2022 is 4.2%. The median age of the proposed service area is 39.7, slightly older than the State of Tennessee median age of 38.4. The median household income is \$46,747, marginally higher than the State of Tennessee median of \$45,219. TennCare enrollees as a percent of the total proposed service area is 19.8%, though estimates of TennCare enrollees in Marion, Rhea and Sequatchie Counties are much higher, between 24% and 26%.

- 2) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

Projected Population Data: <http://www.tn.gov/health/article/statistics-population>

TennCare Enrollment Data: <http://www.tn.gov/tenncare/topic/enrollment-data>

Census Bureau Fact Finder: <http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>

Geographic Area	Department of Health/Health Statistics					
	Total Pop 2017	Total Pop 2022	% Change	Target Pop 2017	Target Pop 2022	% Change
HAMILTON	359,331	374,738	4.3%	272,688	283,710	3.9%
MARION	28,610	28,624	0.0%	21,996	22,301	1.4%
RHEA	34,262	35,833	4.6%	25,587	27,174	5.8%
SEQUATCHIE	16,125	17,478	8.4%	12,283	13,507	9.1%
SERVICE AREA TOTAL	438,328	456,673	4.2%	332,554	346,692	4.3%
STATE OF TN TOTAL	6,887,572	7,250,604	5.3%	5,114,657	5,421,247	5.7%

Geographic Area	Bureau of the Census				TennCare Enrollees	
	Median Age	Median Household Income	Person Below Poverty Level	Person Below Poverty Level as %	TennCare Enrollees	TennCare Enrollees as a % of total
HAMILTON	39.3	\$ 48,248	54,036	16.0%	66,758	18.6%
MARION	42.3	\$ 41,348	5,350	19.2%	6,994	24.4%
RHEA	40.5	\$ 36,146	7,664	24.5%	9,007	26.3%
SEQUATCHIE	41.9	\$ 45,408	2,335	16.3%	3,819	23.7%
SERVICE AREA TOTAL	39.7	\$ 46,747	69,385	16.9%	86,578	19.8%
STATE OF TN TOTAL	38.4	\$ 45,219	1,117,594	17.6%	1,454,231	21.1%

\* Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.

- B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: Cancer rates are higher in the elderly, and 63% of Memorial's radiation therapy patients are age 65 or older. The 65+ age segment of the proposed service area is projected to account for 21% of the population by 2022, up from 18% in 2017. Accessibility to services is critical for this patient population, and radiation therapy services at Memorial Hixson would decrease travel time and ease parking and building entry for this population. Memorial Hixson offers non-congested, ground-level parking, and the radiation therapy service will be built on the ground floor with its own entrance, allowing for easy pedestrian transit in and out for services.

5. Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.

Response: Not applicable; this project is a relocation of services.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology **must include** detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: Historical radiation treatment volumes for Memorial Chattanooga are provided in the below chart, growing from 18,926 in 2015 to 25,341 in 2017 – a 33.9% growth rate. Memorial projects that 37% of total radiation therapy patients will continue to come from the proposed service area, and that three-quarters of these patients currently seeking care at Memorial Chattanooga will shift to Memorial Hixson. Since the project completion date is anticipated at three years out, the 4.2% five-year target population projected growth rate from 2017 to 2022 was computed to a compound annual growth rate of 0.83% and applied to 2021 and 2022, the anticipated Years 1 and 2 of project operation.

	2015	2016	2017	Year 1	Year 2
Total Memorial Radiation Treatments	18,926	21,187	25,341	26,193	26,410
Treatments to Proposed Service Area Patients	7,678	8,101	9,305	9,618	9,698
Projected Treatments at Memorial Hixson	-	-	-	7,214	7,273

## ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
  - A. All projects should have a project cost of at least \$15,000 (the minimum CON Filing Fee). (See Application Instructions for Filing Fee)
  - B. The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.
  - C. The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
  - D. Complete the Square Footage Chart on page 8 and provide the documentation. Please note the Total Construction Cost reported on line 5 of the Project Cost Chart should equal the Total Construction Cost reported on the Square Footage Chart.
  - E. For projects that include new construction, modification, and/or renovation—documentation must be provided from a licensed architect or construction professional that support the estimated construction costs. Provide a letter that includes the following:
    - 1) A general description of the project;
    - 2) An estimate of the cost to construct the project;
    - 3) A description of the status of the site's suitability for the proposed project; and
    - 4) Attesting the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the AIA Guidelines for Design and Construction of Hospital and Health Care Facilities in current use by the licensing authority.

Response: See Attachment B-Economic Feasibility-1E for a copy of the architect letter.

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PROJECT COST CHART

**Supplemental #1**  
**January 26, 2018**  
**10:21 A.M.**

A. Construction and equipment acquired by purchase:

1. Architectural and Engineering Fees	\$290,000
2. Legal, Administrative (Excluding CON Filing Fee), Consultant Fees	\$75,000
3. Acquisition of Site	NA
4. Preparation of Site	\$170,000
5. Total Construction Costs	\$2,799,901
6. Contingency Fund	\$30,902
7. Fixed Equipment (Not included in Construction Contract)	\$3,337,416
8. Moveable Equipment (List all equipment over \$50,000 as separate attachments)	\$524,490
9. Other (Specify) <u>Service Agreement</u>	\$1,192,200

B. Acquisition by gift, donation, or lease:

1. Facility (inclusive of building and land)	-
2. Building only	-
3. Land only	-
4. Equipment (Specify) _____	-
5. Other (Specify) _____	-

C. Financing Costs and Fees:

1. Interim Financing	-
2. Underwriting Costs	-
3. Reserve for One Year's Debt Service	-
4. Other (Specify) _____	-

D. Estimated Project Cost  
(A+B+C)

\$8,419,909

E. CON Filing Fee

\$48,414

F. Total Estimated Project Cost  
(D+E)

**TOTAL \$8,468,323**

## 2. Identify the funding sources for this project.

Check the applicable item(s) below and briefly summarize how the project will be financed. ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)***

Response: See Attachment B-Economic Feasibility-2 for a copy of the Chief Financial Officer letter ensuring project funding.

- ☐ A. Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
- ☐ B. Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- ☐ C. General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;
- ☐ D. Grants – Notification of intent form for grant application or notice of grant award;
- ☒ E. Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or
- ☐ F. Other – Identify and document funding from all other sources.

3. Complete Historical Data Charts on the following two pages—**Do not modify the Charts provided or submit Chart substitutions!**

Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. **Only complete one chart if it suffices.**

*Note that “Management Fees to Affiliates” should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. “Management Fees to Non-Affiliates” should include any management fees paid by agreement to third party entities not having common ownership with the applicant.*

**January 26, 2018****10:21 A.M.**
☒ Total Facility  
☐ Project Only
**HISTORICAL DATA CHART**

Give information for the last *three* (3) years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

	Year 2015	Year 2016	Year 2017
A. Utilization Data (Patient Days)	<u>18,326</u>	<u>18,299</u>	<u>19,159</u>
B. Revenue from Services to Patients			
1. Inpatient Services	\$106,988,128	\$103,656,056	\$107,122,208
2. Outpatient Services	<u>168,636,194</u>	<u>193,423,026</u>	<u>197,932,975</u>
3. Emergency Services	<u>35,596,760</u>	<u>43,909,160</u>	<u>45,523,736</u>
4. Other Operating Revenue (Specify) _____	<u>1,335,749</u>	<u>1,365,101</u>	<u>1,326,591</u>
<b>Gross Operating Revenue</b>	<b>\$312,556,831</b>	<b>\$342,353,343</b>	<b>\$351,905,510</b>
C. Deductions from Gross Operating Revenue			
1. Contractual Adjustments	(224,089,250)	(254,293,194)	(263,203,089)
2. Provision for Charity Care	<u>( 11,474,969)</u>	<u>( 10,185,625)</u>	<u>( 11,406,014)</u>
3. Provisions for Bad Debt	<u>( 6,060,112)</u>	<u>( 6,688,264)</u>	<u>( 4,422,843)</u>
<b>Total Deductions</b>	<b>\$(241,624,331)</b>	<b>\$(271,167,083)</b>	<b>\$(279,031,946)</b>
<b>NET OPERATING REVENUE</b>	<b>\$ 70,932,500</b>	<b>\$ 71,186,260</b>	<b>\$ 72,873,564</b>
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care			
b. Non-Patient Care	<u>24,249,788</u>	<u>23,415,468</u>	<u>24,986,321</u>
2. Physician's Salaries and Wages	<u>1,067,687</u>	<u>3,523,762</u>	<u>3,198,625</u>
3. Supplies	<u>12,369,712</u>	<u>12,984,082</u>	<u>12,384,839</u>
4. Rent			
a. Paid to Affiliates			
b. Paid to Non-Affiliates	1,070,621	1,044,970	1,068,787
5. Management Fees:			
a. Paid to Affiliates			
b. Paid to Non-Affiliates	1,300,872	1,110,322	710,091
6. Other Operating Expenses	<u>12,819,540</u>	<u>13,619,879</u>	<u>12,819,850</u>
<b>Total Operating Expenses</b>	<b>\$ 52,878,220</b>	<b>\$ 55,698,483</b>	<b>\$ 55,168,513</b>
E. Earnings Before Interest, Taxes and Depreciation	\$ 18,054,280	\$ 15,487,777	\$ 17,705,051
F. Non-Operating Expenses			
1. Taxes	\$ 4,111,062	\$ 4,099,915	\$ 4,095,060
2. Depreciation	<u>2,627,529</u>	<u>2,090,977</u>	<u>1,939,301</u>
3. Interest	<u>1,225,143</u>	<u>1,099,892</u>	<u>970,692</u>
4. Other Non-Operating Expenses			
<b>Total Non-Operating Expenses</b>	<b>\$ 7,963,734</b>	<b>\$ 7,290,784</b>	<b>\$ 7,005,053</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 10,090,546</b>	<b>\$ 8,196,993</b>	<b>\$ 10,699,998</b>

Chart Continues Onto Next Page

**Supplemental #1**

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**January 26, 2018****10:21 A.M.****NET INCOME (LOSS)**

\$ 10,090,546

\$ 8,196,993

\$ 10,699,998

**G. Other Deductions**

1. Annual Principal Debt Repayment

\$ 2,600,593

\$ 2,743,620

\$ 2,900,954

2. Annual Capital Expenditure

(100,206)556,744737,425**Total Other Deductions**

\$ 2,500,387

\$ 3,300,364

\$ 3,638,378

**NET BALANCE**

\$ 7,590,159

\$ 4,896,629

\$ 7,061,620

**DEPRECIATION**

\$ 2,627,529

\$ 2,090,977

\$ 1,939,301

**FREE CASH FLOW (Net Balance + Depreciation)**

\$ 10 217 688

\$ 6,987,606

\$ 9,000,921

☒ Total Facility☐ Project Only**HISTORICAL DATA CHART-OTHER EXPENSES****OTHER EXPENSES CATEGORIES****Year 2015****Year 2016****Year 2017**

1. Purchased Services

10,348,167

9,757,809

10,272,398

2. Utilities

1,062,2031,042,9261,117,388

3. Insurance

275,357523,935384,1434. Other1,133,8132,295,2091,045,921

5. \_\_\_\_\_

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6. \_\_\_\_\_

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7. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Total Other Expenses****12,819,540****13,619,879****12,819,850**

4. Complete Projected Data Charts on the following two pages – **Do not modify the Charts provided or submit Chart substitutions!**

The Projected Data Chart requests information for the two years following the completion of the proposed services that apply to the project. Please complete two Projected Data Charts. One Projected Data Chart should reflect revenue and expense projections for the ***Proposal Only*** (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility). The second Chart should reflect information for the total facility. **Only complete one chart if it suffices.**

*Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.*



# SUPPLEMENTAL ATTACHMENTS

## Section B 28R-29R (REVISED)

## PROJECTED DATA CHART

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July\_\_\_\_\_  
(Month).

	Year One	Year Two
A. Utilization Data (Radiation Treatments)	7,214	7,326
B. Revenue from Services to Patients		
1. Inpatient Services	\$	\$
2. Outpatient Services	26,726,265	28,497,548
3. Emergency Services		
4. Other Operating Revenue (Specify)_____		
<b>Gross Operating Revenue</b>	<b>\$ 26,726,265</b>	<b>\$ 28,497,548</b>
C. Deductions from Gross Operating Revenue		
1. Contractual Adjustments	\$ 19,764,144	\$ 21,179,384
2. Provision for Charity Care	662,485	709,923
3. Provisions for Bad Debt	1,656,213	1,774,809
<b>Total Deductions</b>	<b>\$ 22,082,843</b>	<b>\$ 23,664,116</b>
<b>NET OPERATING REVENUE</b>	<b>\$ 4,643,422</b>	<b>\$ 4,833,432</b>
D. Operating Expenses		
1. Salaries and Wages		
a. Direct Patient Care	835,817	852,533
b. Non-Patient Care		
2. Physician's Salaries and Wages	176,280	181,568
3. Supplies	42,152	44,089
4. Rent		
a. Paid to Affiliates		
b. Paid to Non-Affiliates		
5. Management Fees:		
a. Paid to Affiliates		
b. Paid to Non-Affiliates		
6. Other Operating Expenses	100,000	323,050
<b>Total Operating Expenses</b>	<b>\$ \$1,154,249</b>	<b>\$ \$1,401,240</b>
E. Earnings Before Interest, Taxes and Depreciation	\$ \$3,489,173	\$ \$3,432,192
F. Non-Operating Expenses		
1. Taxes	\$	\$
2. Depreciation	693,676	693,676
3. Interest		
4. Other Non-Operating Expenses		
<b>Total Non-Operating Expenses</b>	<b>\$ 693,676</b>	<b>\$ 693,676</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 2,795,497</b>	<b>\$ 2,738,516</b>

Chart Continues Onto Next Page

NET INCOME (LOSS)

G. Other Deductions

1. Estimated Annual Principal Debt Repayment
2. Annual Capital Expenditure

Total Other Deductions

NET BALANCE

DEPRECIATION

FREE CASH FLOW (Net Balance + Depreciation)

\$	2,795,497	\$	2,738,516
\$		\$	
\$		\$	
\$		\$	
\$	2,795,497	\$	2,738,516
\$	693,676	\$	693,676
\$	3,489,173	\$	3,432,192

☐ Total Facility

☒ Project Only

PROJECTED DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES

1. Purchased Services
2. Repairs and Maintenance
3. Imaging Interpretation Fees
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_

Total Other Expenses

Year One	Year Two
\$100,000	\$ 25,000
	298,050
\$ 100,000	\$ 323,050

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PROJECTED DATA CHART

**Supplemental #2**

x Total Facility  
**January 31, 2018**

**9:02 A.M.** ☐ Project Only

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July \_\_\_\_\_  
(Month).

	Year One	Year Two
A. Utilization Data (Radiation Treatments)	<u>18,519</u>	<u>18,705</u>
B. Revenue from Services to Patients		
1. Inpatient Services	<u>\$121,089,564</u>	<u>\$125,569,878</u>
2. Outpatient Services	<u>\$254,495,567</u>	<u>\$263,911,903</u>
3. Emergency Services	<u>                    </u>	<u>                    </u>
4. Other Operating Revenue (Specify) _____	<u>\$1,346,303</u>	<u>\$1,359,766</u>
<b>Gross Operating Revenue</b>	<b><u>\$376,931,434</u></b>	<b><u>\$390,841,547</u></b>
C. Deductions from Gross Operating Revenue		
1. Contractual Adjustments	<u>\$284,053,402</u>	<u>\$296,056,047</u>
2. Provision for Charity Care	<u>\$9,975,963</u>	<u>\$10,397,496</u>
3. Provisions for Bad Debt	<u>\$6,075,133</u>	<u>\$6,331,837</u>
<b>Total Deductions</b>	<b><u>\$300,104,498</u></b>	<b><u>\$312,785,380</u></b>
<b>NET OPERATING REVENUE</b>	<b><u>\$76,826,936</u></b>	<b><u>\$78,056,167</u></b>
D. Operating Expenses		
1. Salaries and Wages		
a. Direct Patient Care	<u>\$25,936,758</u>	<u>\$26,455,493</u>
b. Non-Patient Care	<u>                    </u>	<u>                    </u>
2. Physician's Salaries and Wages	<u>                    </u>	<u>                    </u>
3. Supplies	<u>\$12,435,250</u>	<u>\$12,808,307</u>
4. Rent		
a. Paid to Affiliates	<u>                    </u>	<u>                    </u>
b. Paid to Non-Affiliates	<u>                    </u>	<u>                    </u>
5. Management Fees:		
a. Paid to Affiliates	<u>                    </u>	<u>                    </u>
b. Paid to Non-Affiliates	<u>\$1,703,408</u>	<u>\$1,720,443</u>
6. Other Operating Expenses	<u>\$16,557,969</u>	<u>\$16,723,549</u>
<b>Total Operating Expenses</b>	<b><u>\$56,633,385</u></b>	<b><u>\$57,707,792</u></b>
E. Earnings Before Interest, Taxes and Depreciation	<u>\$20,193,550</u>	<u>\$20,348,375</u>
F. Non-Operating Expenses		
1. Taxes	<u>\$4,087,217</u>	<u>\$4,087,217</u>
2. Depreciation	<u>\$1,983,279</u>	<u>\$1,983,279</u>
3. Interest	<u>\$990,435</u>	<u>\$990,435</u>
4. Other Non-Operating Expenses	<u>\$0</u>	<u>\$0</u>
<b>Total Non-Operating Expenses</b>	<b><u>\$7,060,931</u></b>	<b><u>\$7,060,931</u></b>
<b>NET INCOME (LOSS)</b>	<b><u>\$13,132,620</u></b>	<b><u>\$13,287,444</u></b>

*Chart Continues Onto Next Page*

## NET INCOME (LOSS)

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\$13,132,620

\$13,287,444

## G. Other Deductions

1. Estimated Annual Principal Debt Repayment
2. Annual Capital Expenditure

\$3,243,261

\$3,400,714

\$1,000,000

\$1,000,000

## Total Other Deductions

\$4,243,261

\$4,400,714

## NET BALANCE

\$8,889,359

\$8,886,730

## DEPRECIATION

\$1,983,279

\$1,983,279

## FREE CASH FLOW (Net Balance + Depreciation)

\$10,872,637

\$10,870,009

☒ Total Facility☐ Project Only

## PROJECTED DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES

## Year One

## Year Two

1. Purchased Services

\$9,949,322

\$10,048,815

2. Repairs and Maintenance

\$1,186,560

\$1,198,426

3. Imaging Interpretation Fees

\$454,739

\$459,286

4. Other

\$4,967,349

\$5,017,022

5. \_\_\_\_\_

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6. \_\_\_\_\_

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7. \_\_\_\_\_

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\_\_\_\_\_

## Total Other Expenses

\$16,557,969

\$16,723,549

January 26, 2018

10:21 A.M.

5. A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
<b>Gross Charge</b> ( <i>Gross Operating Revenue/Utilization Data</i> )	\$3,971	\$4,672	\$3,705	\$3,890	-17%
<b>Deduction from Revenue</b> ( <i>Total Deductions/Utilization Data</i> )	\$3,355	\$3,948	\$3,061	\$3,230	-18%
<b>Average Net Charge</b> ( <i>Net Operating Revenue/Utilization Data</i> )	\$616	\$724	\$644	\$660	-9%

- B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

Response: The project will not affect charges. The table below displays the proposed charges for Memorial Hixson, which include traditional linear accelerator, IMRT, and SBRT treatments. The current average charge for Memorial Chattanooga is higher than the projected average charge at Memorial Hixson because of a different mix of radiation therapy services. Along with traditional linear accelerator, IMRT, and SBRT treatments, Memorial Chattanooga also provides HDR and SRS treatment modalities, which will not be included in the Memorial Hixson project.

CPT Code	Procedure Description	Proposed Charge	Medicare Allowable
31525	DIRECT LARYNGOSCOPY W/WO TRACH	\$ 2,850.00	\$ 1,170.78
31575	DIRECT FLEX LARYN	\$ 2,050.00	\$ 134.80
77280	SIMULATION-SIMPL	\$ 1,069.00	\$ 108.41
77290	SIMULATION-COMPL	\$ 2,104.00	\$ 287.27
77293	RESPIRATORY MOTION SIMULATION	\$ 2,339.00	\$ -
77295	3-D THERAPEUTIC RAD SIMULATION	\$ 5,910.00	\$ 983.11
77300	BASIC RADIATION-DOSIMETRY CALC	\$ 442.00	\$ 108.41
77301	IMRT PLANNING	\$ 5,973.00	\$ 983.11
77306	TELETHERAPY ISODOSE PLAN SIMP	\$ 1,049.00	\$ 287.27
77307	TELETHERAPY ISODOSE PLAN COMP	\$ 2,049.00	\$ 287.27
77321	SPEC TELETHERAPY PORT	\$ 2,019.00	\$ 287.27
77332	TREATMENT DEVICE-SIMPLE	\$ 384.00	\$ 108.41
77334	TREATMENT DEVICE-COMPLEX	\$ 1,242.00	\$ 287.27
77336	CONTINUING MEDICAL-RAD PHYSICS	\$ 470.00	\$ 108.41
77338	BLOCKING CHARGE W/ IMRT	\$ 429.00	\$ 287.27
77370	SPEC.MED.RAD.PHYSIC CONSULT	\$ 522.00	\$ 108.41
77373	STEREOTACTIC 1 TO 5 FRACTIONS	\$ 5,286.00	\$ 1,522.54
77385	IMRT PROSTATE/BREAST	\$ 2,413.00	\$ 456.06
77386	IMRT COMPLEX INCLUDING IGRT	\$ 6,603.00	\$ 456.06
77387	IMG GUIDE PERF W/ CONV TX DEL	\$ 314.00	\$ -
77412	RADIATION TREATMENT COMPLEX	\$ 643.00	\$ 188.56
77417	TREATMENT-PORT FILM	\$ 133.00	\$ -
77470	SPECIAL TREATMENT	\$ 782.00	\$ 456.06
92511	NASOPHARYNGOSCOPY	\$ 1,067.00	\$ 134.80
99211	OP VISIT LEVEL 1 ESTABLISHED	\$ 134.00	\$ 77.05

- C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response: A comparison of historical charges to those of similar facilities is provided in the below table. A comparison of proposed charges and the Medicare allowable is included in the table under 5.B. above.

Data from HSDA Linear Accelerators - Utilization Report						
County	Provider	Year	Number of Units	Total Treatments	Total Gross Charges	Average Gross Charges Per Treatment
Hamilton	Memorial	2014	3	15,796	\$ 24,491,145	\$ 1,550.46
Hamilton	Erlanger	2014	2	10,552	\$ 10,634,731	\$ 1,007.84
Hamilton	Parkridge	2014	2	3,949	\$ 6,812,655	\$ 1,725.16
Hamilton	Memorial	2015	3	18,926	\$ 59,122,748	\$ 3,123.89
Hamilton	Erlanger	2015	2	11,004	\$ 16,046,153	\$ 1,458.21
Hamilton	Parkridge	2015	2	3,228	\$ 6,906,424	\$ 2,139.54
Hamilton	Memorial	2016	3	21,187	\$ 72,483,554	\$ 3,421.13
Hamilton	Erlanger	2016	2	11,238	\$ 20,067,014	\$ 1,785.64
Hamilton	Parkridge	2016	2	2,268	\$ 5,203,741	\$ 2,294.42

**January 26, 2018****10:21 A.M.**

6. A. Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility. **NOTE: Publicly held entities only need to reference their SEC filings.**

Response: Utilization rates at Memorial Hixson, based on existing utilization rates at Memorial Chattanooga, are anticipated to be sufficient to support financial performance. This project is financially feasible within the first year of operation; see the above Projected Data Chart for positive cash flows from implementation.

See Attachment B-Economic Feasibility-6A for a copy of the organization balance sheet, income statement, and the most recent audited financial statements. Memorial itself does not receive an individual audit report but is considered and is a part of the overall Catholic Health Initiatives annual Ernst & Young audit.

- B. Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	25%	22%	24%	25.9%	28.99%



- C. Capitalization Ratio (Long-term debt to Capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix. This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is:  $(\text{Long-term debt} / (\text{Long-term debt} / \text{Total Equity (Net assets)}) \times 100)$ .

For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

Response: Memorial Hixson's Debt to Capitalization is 24.6% at the end of calendar year 2017.

7. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.

Response: The project is committed to serving participants in state and federal revenue programs, including those Medicare, TennCare, and medically indigent patients who choose to seek care at Memorial Hixson.

**Applicant's Projected Payor Mix, Year 1**

Payor Source	Projected Gross Operating Revenue	As a % of total
Medicare/Medicare Managed Care	17,326,582	64.83%
TennCare/Medicaid	942,949	3.53%
Commercial/Other Managed Care	7,762,216	29.04%
Self-Pay		0.00%
Charity Care	662,485	2.48%
Other <u>Research/Other Facility Billings</u>	32,032	0.12%
Total	\$26,726,265	100%

8. Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equivalent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.

Position Classification	Existing FTEs (enter year)	Projected FTEs Year 1	Average Wage (Contractual Rate)	Area Wide/Statewide Average Wage
<b>A. Direct Patient Care Positions</b>				
<i>Physicist</i>	4	1	102	81.04
<i>Dosimetrist</i>	4	1	50	48.78
<i>Radiation Therapist</i>	13	2	35	32.48
<b>Total Direct Patient Care Positions</b>	21	4		

<b>B. Non-Patient Care Positions</b>				
<i>Clerical Support</i>	6	2	15	12.99
<i>Programming Specialist</i>	0	1	30	unknown
<i>Nursing and Nursing Assistants</i>	4	1	27.12	27.07
<b>Total Non-Patient Care Positions</b>	10	4		
<b>Total Employees (A+B)</b>	31	8		
<b>C. Contractual Staff</b>				
<b>Total Staff (A+B+C)</b>	31	8		

9. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

- A. Discuss the availability of less costly, more effective and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, justify why not, including reasons as to why they were rejected.

Response: Consideration was given to replacing existing equipment at CHI Memorial's main downtown campus. This alternative, however, would involve considerable renovation and disruption to existing patient care. In addition, replacing the unit on campus would do nothing to improve patient access.

- B. Document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements.

Response: Consideration was given to renovation at CHI Memorial's downtown campus but deemed impractical. Collaboration with architects has yielded a plan that requires the minimum new construction possible at Memorial Hixson. Space will be utilized to the fullest within the existing building footprint.

## CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (i.e., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, that may directly or indirectly apply to the project, such as, transfer agreements, contractual agreements for health services.

Response: Memorial Hixson contracts with numerous area providers and MCOs for direct and indirect patient care. See Attachment B-Orderly Development-1 for a detailed listing of partners with whom Memorial Hixson has contractual relationships.

2. Describe the effects of competition and/or duplication of the proposal on the health care system, including the impact to consumers and existing providers in the service area. Discuss any instances of competition and/or duplication arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

### A. Positive Effects

Response: The effect to the consumer is improved access to care.

### B. Negative Effects

Response: None; no additional capacity is being added to the market.

3. A. Discuss the availability of and accessibility to human resources required by the proposal, including clinical leadership and adequate professional staff, as per the State of Tennessee licensing requirements and/or requirements of accrediting agencies, such as the Joint Commission and Commission on Accreditation of Rehabilitation Facilities.

Response: Memorial recruits and retains top talent within its clinical leadership and professional staff. This project anticipates staffing the Memorial Hixson facility with experienced staff from Memorial Chattanooga and recruiting as needed per licensing and accrediting requirements.

- B. Verify that the applicant has reviewed and understands all licensing and/or certification as required by the State of Tennessee and/or accrediting agencies such as the Joint Commission for medical/clinical staff. These include, without limitation, regulations concerning clinical leadership, physician supervision, quality assurance policies and programs, utilization review policies and programs, record keeping, clinical staffing requirements, and staff education.

Response: Leadership at Memorial Hixson verifies that it has reviewed and understands all licensing and certification requirements needed for the successful implementation of this project.

- C. Discuss the applicant's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).

Response: As it relates to the provision of radiation therapy services, CHI Memorial currently has agreements with Chattanooga State Technical Institute for the training of radiation technologist students, as well as the Radiation Therapy University Technology Dosimetry School for dosimetrists in training to complete the required clinical experience within radiation departments.

4. Identify the type of licensure and certification requirements applicable and verify the applicant has reviewed and understands them. Discuss any additional requirements, if applicable. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

## Licensure:

Response: Memorial Hixson is licensed as a general acute care hospital by the Tennessee Department of Health.

## Certification Type (e.g. Medicare SNF, Medicare LTAC, etc.):

Response: Memorial Hixson is Medicare certified as a general acute care hospital.

## Accreditation (i.e., Joint Commission, CARF, etc.):

Response: Memorial Hixson is accredited by the Joint Commission. The Memorial oncology service line is currently accredited by: Commission on Cancer, National Accreditation Program for Breast Centers and the American College of Radiology. All organizations have quality metrics related to radiation services. The Radiation Department is currently preparing to apply for ASTRO Accreditation in 2018.

- A. If an existing institution, describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility and accreditation designation.

Response: Memorial Hixson is in good standing with the Joint Commission; see Attachment B-Orderly Development-4A-1 for a copy of the Joint Commission accreditation letter. Memorial Hixson is currently licensed as an acute care hospital with 74 beds; see Attachment B-Orderly Development-4A-2 for a copy of the most recent issued license, as well as Attachment B-Orderly Development-4A-3 for a copy of the recent license update letter from the Tennessee Department of Health.

- B. For existing providers, please provide a copy of the most recent statement of deficiencies/plan of correction and document that all deficiencies/findings have been corrected by providing a letter from the appropriate agency.

Response: Memorial Hixson is in good standing with the Joint Commission and no deficiencies were found in the most recent survey period. See Attachment B-Orderly Development-4B for a copy of the most recent Joint Commission Success Summary.

- C. Document and explain inspections within the last three survey cycles which have resulted in any of the following state, federal, or accrediting body actions: suspension of admissions, civil monetary penalties, notice of 23-day or 90-day termination proceedings from Medicare/Medicaid/TennCare, revocation/denial of accreditation, or other similar actions.

Response: No such actions have occurred from recent survey findings.

- 1) Discuss what measures the applicant has or will put in place to avoid similar findings in the future.

Response: Not applicable.

## 5. Respond to all of the following and for such occurrences, identify, explain and provide documentation:

- A. Has any of the following:

- 1) Any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant);

- 2) Any entity in which any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%; and/or
- 3) Any physician or other provider of health care, or administrator employed by any entity in which any person(s) or entity with more than 5% ownership in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%.

Response: Catholic Health Initiatives is the direct owner of CHI Memorial Health Care System, which owns Memorial Hixson.

B. Been subjected to any of the following:

- 1) Final Order or Judgment in a state licensure action;

Response: No

- 2) Criminal fines in cases involving a Federal or State health care offense;

Response: No

- 3) Civil monetary penalties in cases involving a Federal or State health care offense;

Response: No

- 4) Administrative monetary penalties in cases involving a Federal or State health care offense;

Response: No

- 5) Agreement to pay civil or administrative monetary penalties to the federal government or any state in cases involving claims related to the provision of health care items and services; and/or

Response: No

- 6) Suspension or termination of participation in Medicare or Medicaid/TennCare programs.

Response: No

- 7) Is presently subject of/to an investigation, regulatory action, or party in any civil or criminal action of which you are aware.

Response: No

- 8) Is presently subject to a corporate integrity agreement.

Response: No

## 6. Outstanding Projects:

- A. Complete the following chart by entering information for each applicable outstanding CON by applicant or share common ownership; and

Response: Memorial does not currently have any outstanding certificate of need projects.

<u>Outstanding Projects</u>					
<u>CON Number</u>	<u>Project Name</u>	<u>Date Approved</u>	<u>*Annual Progress Report(s)</u>		<u>Expiration Date</u>
			<u>Due Date</u>	<u>Date Filed</u>	

\* Annual Progress Reports – HSDA Rules require that an Annual Progress Report (APR) be submitted each year. The APR is due annually until the Final Project Report (FPR) is submitted (FPR is due within 90 ninety days of the completion and/or implementation of the project). Brief progress status updates are requested as needed. The project remains outstanding until the FPR is received.

- B. Provide a brief description of the current progress, and status of each applicable outstanding CON.

Response: Not applicable.

## 7. Equipment Registry – For the applicant and all entities in common ownership with the applicant.

- A. Do you own, lease, operate, and/or contract with a mobile vendor for a Computed Tomography scanner (CT), Linear Accelerator, Magnetic Resonance Imaging (MRI), and/or Positron Emission Tomographer (PET)?

Response:  
No

- B. If yes, have you submitted their registration to HSDA? If you have, what was the date of submission?

- C. If yes, have you submitted your utilization to Health Services and Development Agency? If you have, what was the date of submission?

## APPLICATION APPENDIX

Quality Measures

State Health Plan Questions

Proof of Publication/Notification

Development Schedule

Project Completion Forecast Chart



CHI Memorial

## QUALITY MEASURES

Please verify that the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures as determined by the Agency pertaining to the certificate of need, if approved.

Response: We confirm that we will comply with all quality standards as laid out by the Agency.

Memorial is committed to its status as a leader in patient safety and quality care. In 2017 Memorial received a four star rating from CMS, one of only a few such hospitals to receive the designation in the state of Tennessee. Memorial was also named as the top hospital in Chattanooga and the third best hospital in the state by U.S. News & World Report. A 2017 survey by Nurse.org also recognized Memorial as the #1 hospital for nurses to work for in Tennessee, validating Memorial's commitment to recruitment and retention of top nursing talent.

## STATE HEALTH PLAN QUESTIONS

T.C.A. §68-11-1625 requires the Tennessee Department of Health's Division of Health Planning to develop and annually update the State Health Plan (found at <http://www.tn.gov/health/topic/health-planning> ). The State Health Plan guides the State in the development of health care programs and policies and in the allocation of health care resources in the State, including the Certificate of Need program. The 5 Principles for Achieving Better Health are from the State Health Plan's framework and inform the Certificate of Need program and its standards and criteria.

Discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan.

1. The purpose of the State Health Plan is to improve the health of the people of Tennessee.

Response: This project will improve the health of the people of Tennessee by upgrading technology and improving access.

2. People in Tennessee should have access to health care and the conditions to achieve optimal health.

Response: This project will improve access by providing cancer care closer to home for a significant patient population.

3. Health resources in Tennessee, including health care, should be developed to address the health of people in Tennessee while encouraging economic efficiencies.

Response: This project does not add unneeded capacity to the market and is the most cost-effective option to improve care for cancer patients.

4. People in Tennessee should have confidence that the quality of health care is continually monitored and standards are adhered to by providers.

Response: Memorial Hixson's radiation therapy service will be staffed by board-certified radiation oncologists and Memorial's radiation oncology program as a whole is currently seeking ASTRO accreditation.

5. The state should support the development, recruitment, and retention of a sufficient and quality health workforce.

Response: Memorial is committed to recruiting and retaining top health care talent, demonstrated by its Nurse.Org award and high ratings from consumer agencies.



## PROOF OF PUBLICATION

**Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.**

Response: See Attachment Proof of Publication for a copy of the notice of intent that appeared in Chattanooga's Times Free Press newspaper.

## NOTIFICATION REQUIREMENTS

### **(Applies only to Nonresidential Substitution-Based Treatment Centers for Opiate Addiction)**

Note that T.C.A. §68-11-1607(c)(9)(A) states that "...Within ten (10) days of the filing of an application for a nonresidential substitution-based treatment center for opiate addiction with the agency, the applicant shall send a notice to the county mayor of the county in which the facility is proposed to be located, the state representative and senator representing the house district and senate district in which the facility is proposed to be located, and to the mayor of the municipality, if the facility is proposed to be located within the corporate boundaries of a municipality, by certified mail, return receipt requested, informing such officials that an application for a nonresidential substitution-based treatment center for opiate addiction has been filed with the agency by the applicant."

Failure to provide the notifications described above within the required statutory timeframe will result in the voiding of the CON application.

Please provide documentation of these notifications.

## DEVELOPMENT SCHEDULE

**T.C.A. §68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.**

- 1. Complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

Response: The project is anticipated to be completed in one phase, reference the below Project Completion Forecast Chart for detail.

- 2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the "good cause" for such an extension.**

Response: The project is anticipated to be completed within the allotted three years.

## PROJECT COMPLETION FORECAST CHART

Assuming the Certificate of Need (CON) approval becomes the final HSDA action on the date listed in Item 1. below, indicate the number of days from the HSDA decision date to each phase of the completion forecast.

<b>Phase</b>	<b><u>Days Required</u></b>	<b><u>Anticipated Date [Month/Year]</u></b>
1. Initial HSDA decision date		April, 2018
2. Architectural and engineering contract signed	120	September, 2018
3. Construction documents approved by the Tennessee Department of Health	330	June, 2019
4. Construction contract signed	330	June, 2019
5. Building permit secured	330	June, 2019
6. Site preparation completed	390	August, 2019
7. Building construction commenced	390	August, 2019
8. Construction 40% complete	510	December, 2019
9. Construction 80% complete	660	May, 2020
10. Construction 100% complete (approved for occupancy)	750	August, 2020
11. *Issuance of License	780	September, 2020
12. *Issuance of Service	790	September, 2020
13. Final Architectural Certification of Payment	840	November, 2020
14. Final Project Report Form submitted (Form HR0055)	900	January, 2021

\*For projects that **DO NOT** involve construction or renovation, complete Items 11 & 12 only.

**NOTE:** If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date

**AFFIDAVIT**

STATE OF TN  
 COUNTY OF HAMILTON

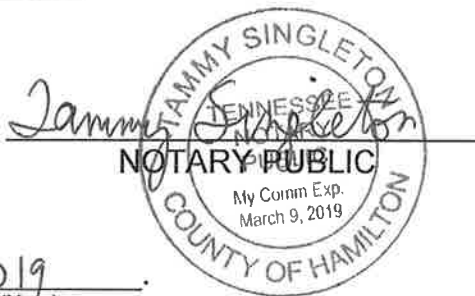
Lawrence P Schumacher, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. §68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

Lawrence P Schumacher CEO  
 SIGNATURE/TITLE

Sworn to and subscribed before me this 9th day of January, 2018 a Notary  
 (Month) (Year)

Public in and for the County/State of Hamilton / TN.

My commission expires March 9, 2019.  
 (Month/Day) (Year)



# APPLICATION ATTACHMENTS

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## Proof of Publication Attachment

# APPLICATION ATTACHMENTS

## Attachment A

# APPLICATION ATTACHMENTS

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Section A

A-3B-1

Physician Support Letter

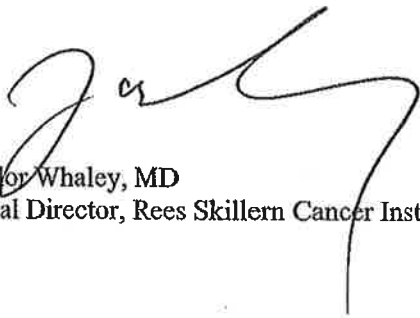
Eric R. Ellis, M.D.  
 John A. Fortney, M.D.  
 Marcus M. Wagner, M.D.  
 J. Taylor Whaley, M.D.

As a Radiation Oncologist who has taken care of thousands of patients in the Chattanooga and Hamilton County region, and as a leading Radiation Oncology partner in Tennessee Oncology, I write to urge your support of CHI Memorial's plans for a linear accelerator in the Hixson community. In the past five years, I have witnessed a 20 percent increase in the number of radiation therapy procedures at CHI Memorial's Rees Skillern Cancer Institute in Chattanooga, which I suspect, is due to an aging population and to the advances in chemotherapy that has led to many patients living longer with cancer. Thanks to those advances, many cancer conditions are not death sentences, but are chronic diseases with which patients can live years instead of a few months.

Due to the growing community north of the Tennessee River, we are seeing more and more patients who reside in northern Hamilton, Sequatchie and Rhea Counties. These patients undergo daily therapy for several weeks, and traveling long distances is challenging for them and their families. This new service would be readily available to residents in this and surrounding areas. At the present time, CHI Memorial is treating between 105-130 patients per day from 7 a.m. to as late as 9:45 p.m., to accommodate the growing volume. The shift of some of this patient volume, and the implementation of updated technology, will provide a better patient experience at both locations.

Our radiation oncology group has recruited two new radiation oncologists to join us in the next year to help treat the increasing volume of patients. The addition of these physicians underscores our commitment to be part of the solution, and it will enable us to efficiently provide radiation therapy treatments at both locations.

I look forward to the implementation of radiation therapy services to CHI Memorial Hospital – Hixson, improving access to our patients who reside north of the Tennessee River, and I fully support CHI Memorial's efforts to obtain a certificate of need for this project.



J. Taylor Whaley, MD  
 Medical Director, Rees Skillern Cancer Institute

**Memorial Plaza**  
 605 Glenwood Drive  
 Suite 200  
 Chattanooga, TN 37404  
 423.698.1844

**Medical Park II**  
 2200 E. Third Street  
 Suite 100  
 Chattanooga, TN 37404

**North Park**  
 2051 Hamill Road  
 Suite 104  
 Hixson, TN 37343

# SUPPLEMENTAL ATTACHMENTS

Section A

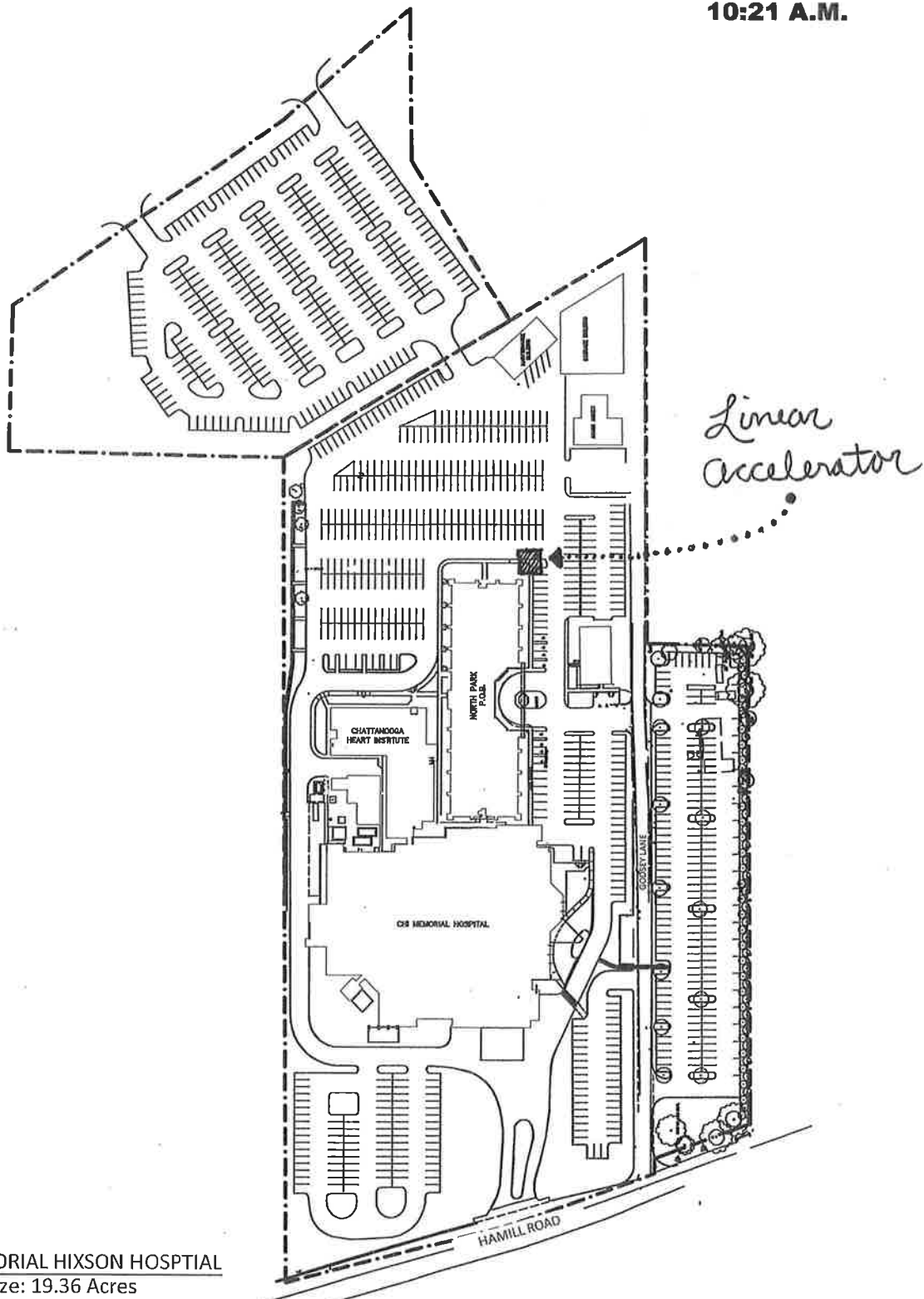
6B-1

Plot Plan (REVISED)



January 26, 2018

10:21 A.M.



MEMORIAL HIXSON HOSPITAL  
Site Size: 19.36 Acres

CHI Memorial  
Hospital Chattanooga

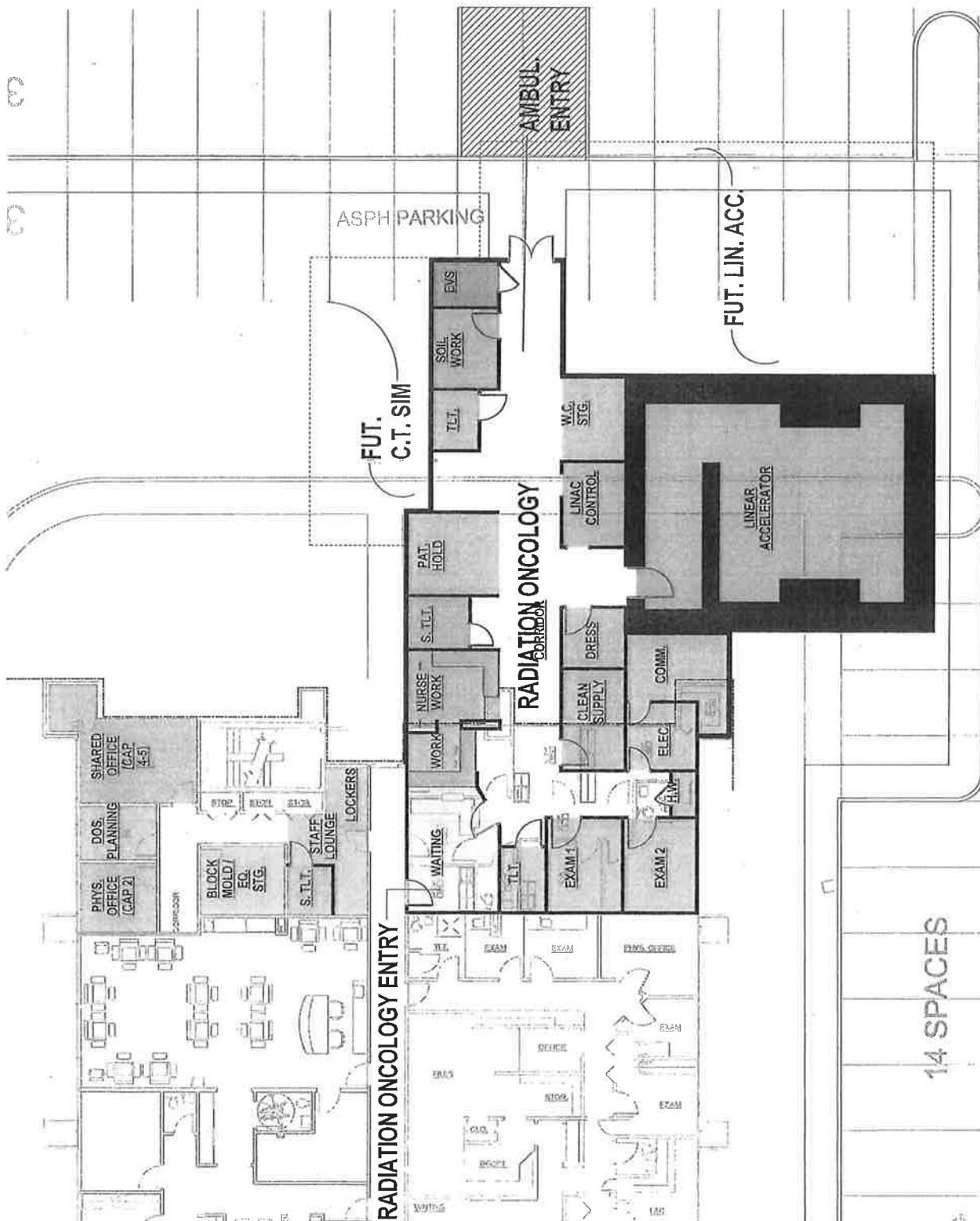
SHT. NO.

1

SITE PLAN  
CHI MEMORIAL HIXSON HOSPITAL  
2051 HAMILL ROAD, HIXSON, TENNESSEE

# SUPPLEMENTAL ATTACHMENTS

## Section A 6B-2 Floor Plan (REVISED)



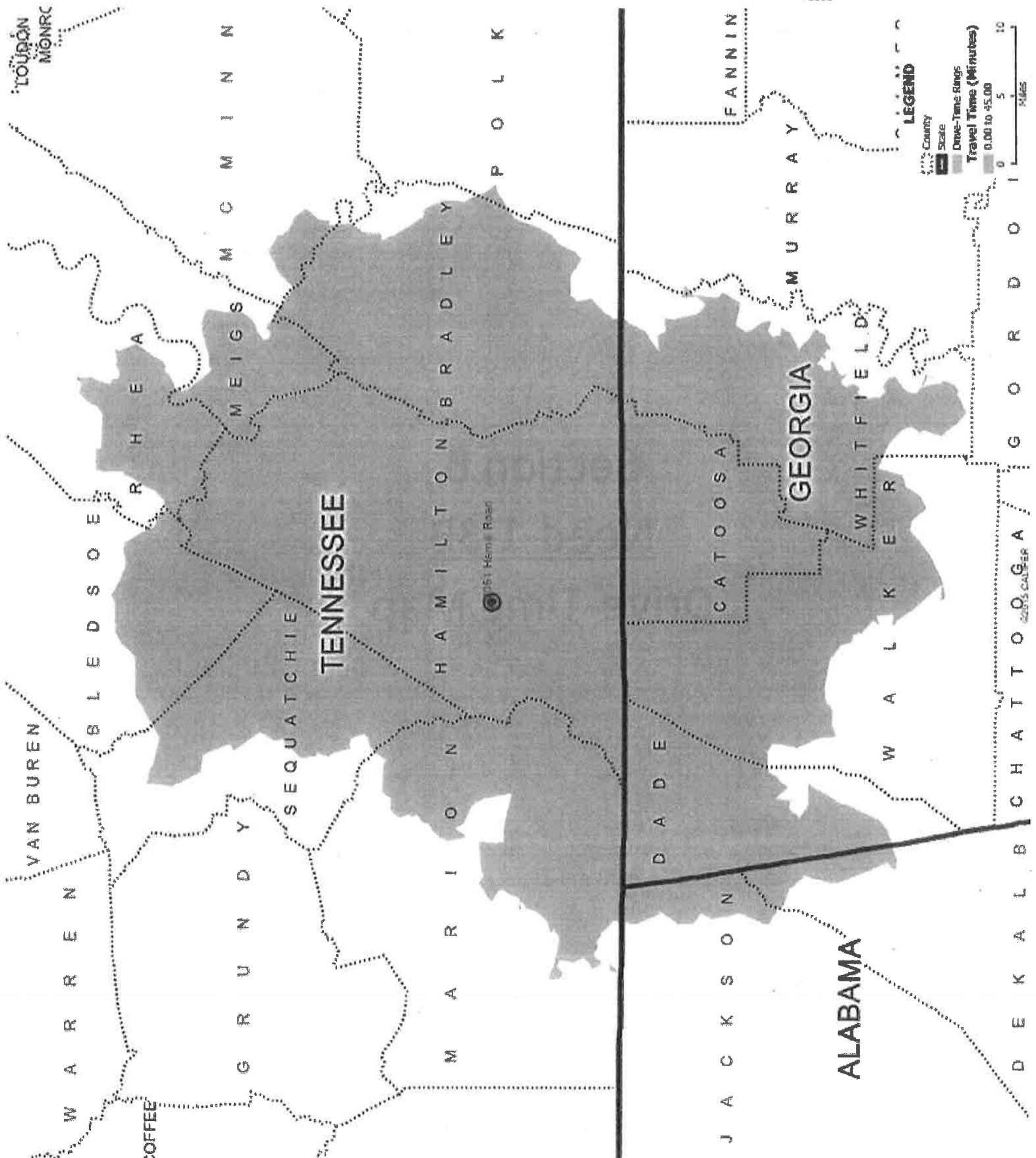
# APPLICATION ATTACHMENTS

## Attachment B

# SUPPLEMENTAL ATTACHMENTS

## Section B Need-1-3B Drive-Time Map

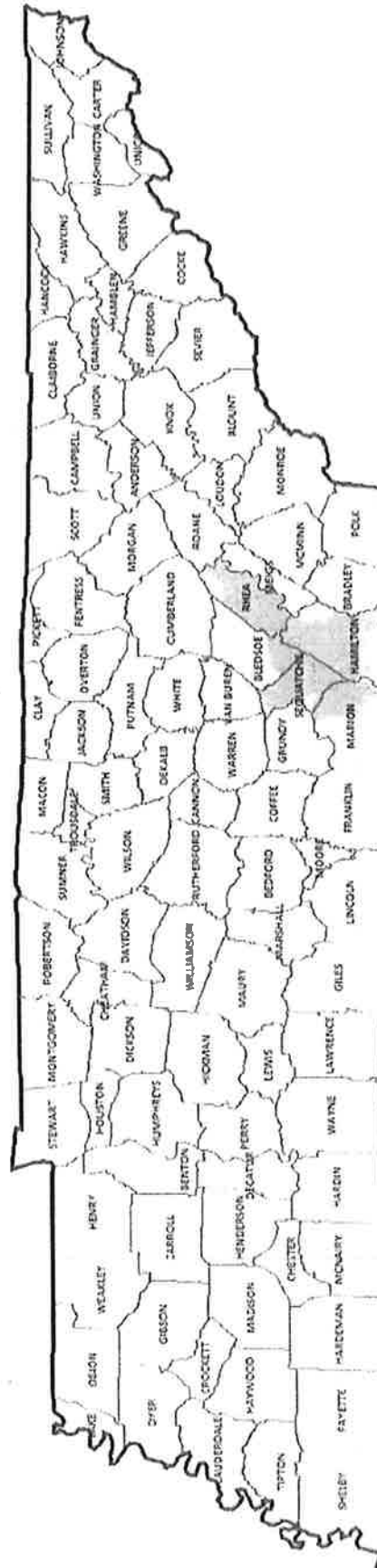




# APPLICATION ATTACHMENTS

## Section B B-Need-3-1 County-Level Map

## County Level Map

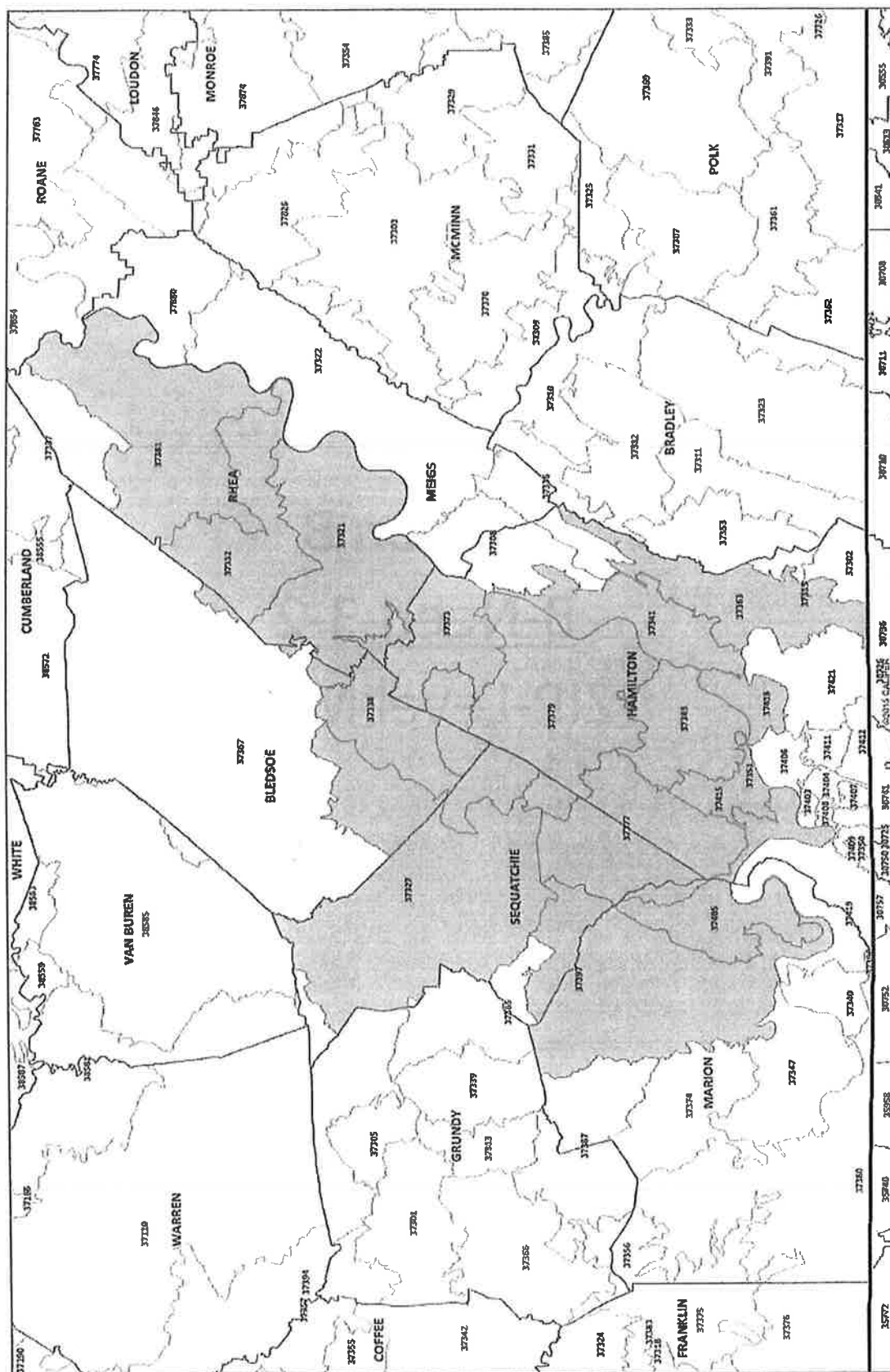


**Abstract**



# APPLICATION ATTACHMENTS

## Section B B-Need-3-2 ZIP-Level Map



# SUPPLEMENTAL ATTACHMENTS

## Section B Need-1-6C Emergency Protocols

**POLICY**

Title: <b>EMERGENCY EVACUATION</b>			
Page 1 of 1			
Policy Number:		Date Last reviewed/Revised: 8/14	Valid Until: 8/17
Department(s) Affected: Radiation Oncology		Review Period: every 3 years	

**OUTCOME:**

All patients will be evacuated through the safest, closest exit. The usual primary exit is the main entrance at Glenwood Drive.

**POLICY:**

The following plan shall be followed in the event that an emergency evacuation is necessary:

The therapists in each treatment room shall be responsible for the patient in that room and anyone they may have waiting in the treatment area.

The nurse shall be responsible for the patients and families in the examination rooms and lobby.

---

**Key Contact:** Renee Epps, Radiation Oncology

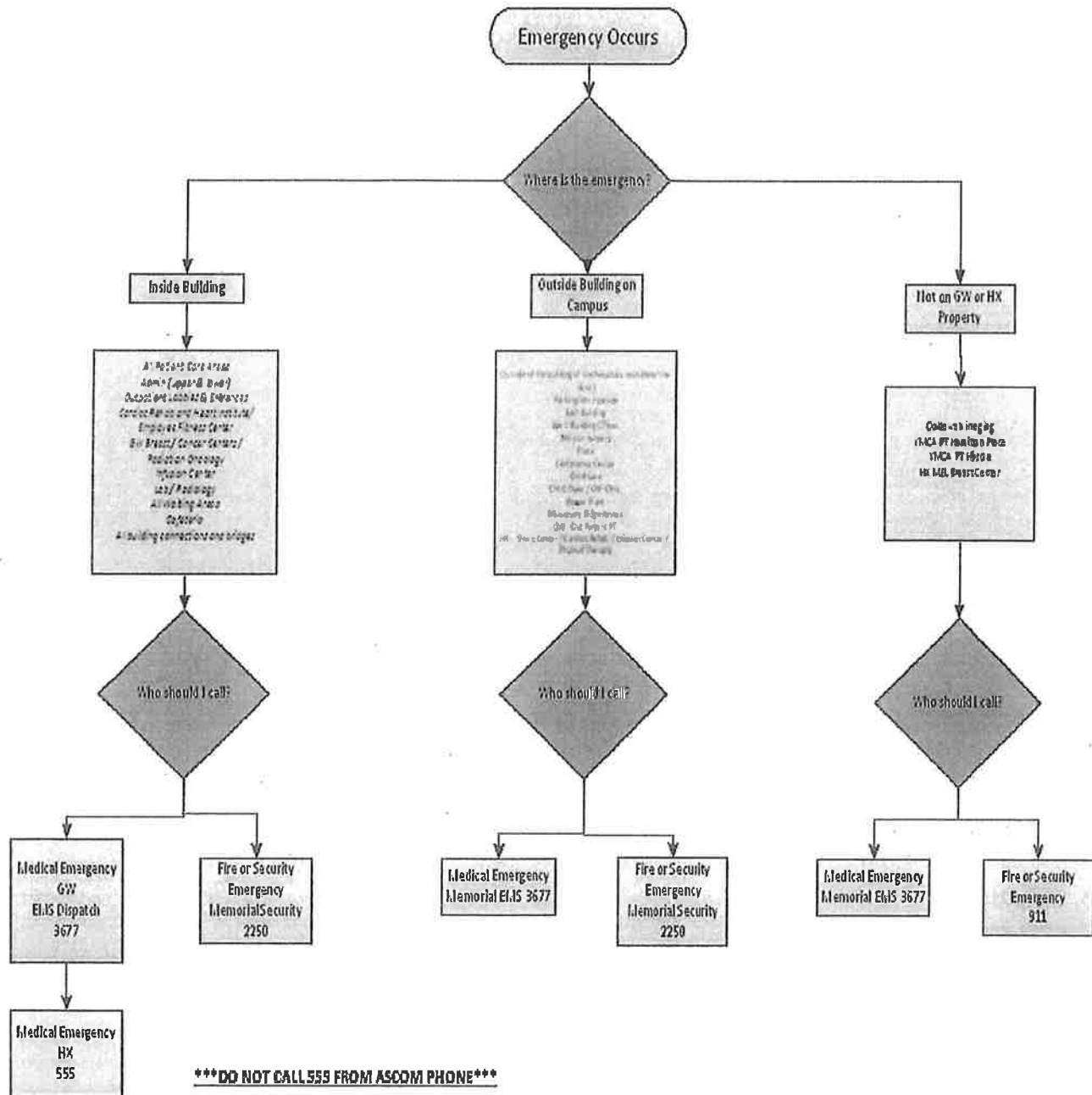
**Reference(s):** Dr. Eric Ellis, Medical Director; Kathy Dittmar, Service Line Administrator Cancer Services

**Date First Effective & (Revision/Review dates):** 2/04 (12/05) (808) (9/09) (10/13) (8/14)

**Distribution:** MHCS Intranet



## Emergency Response Decision Tree



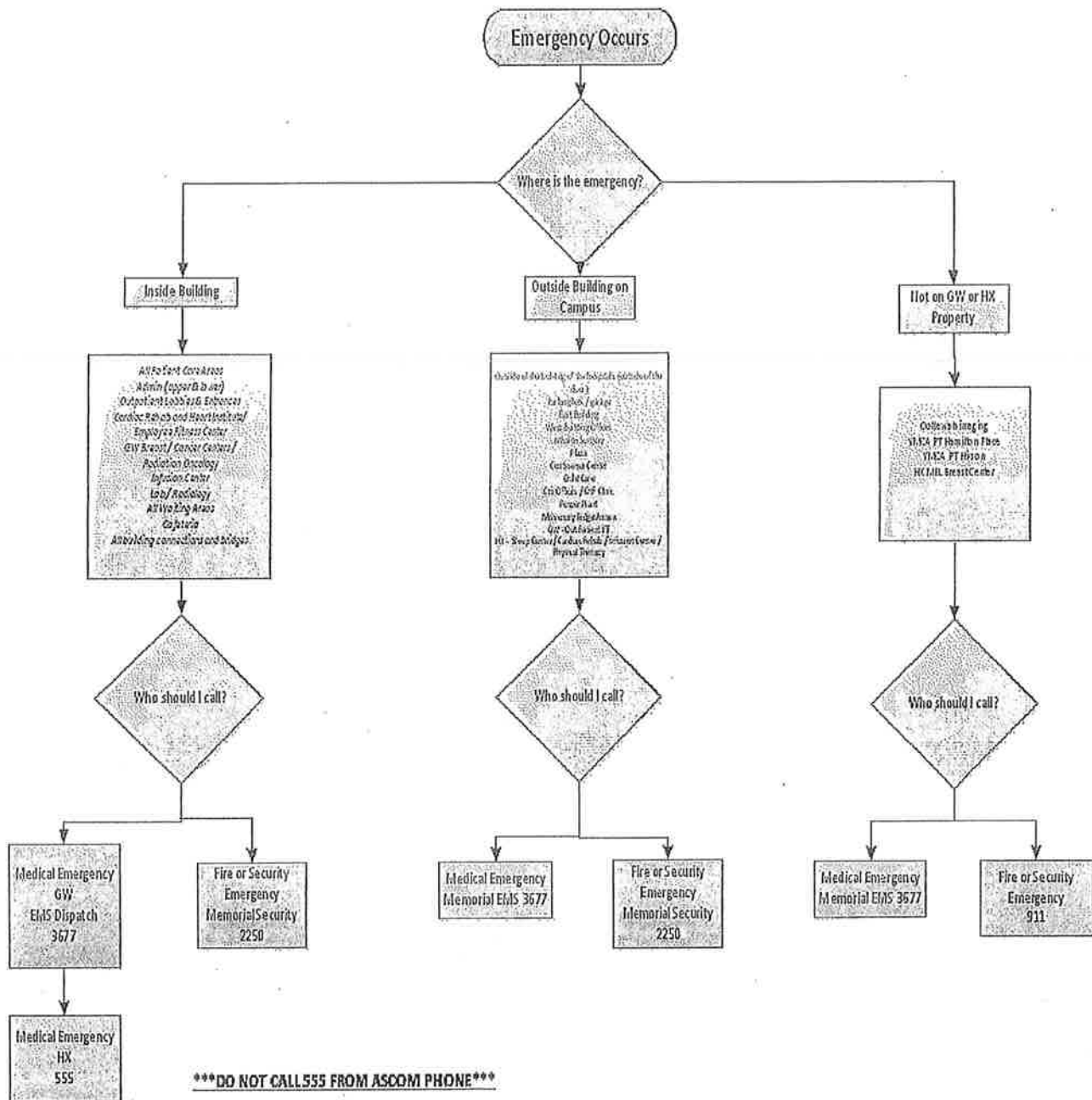
PIF JAN  
2018

Code Blue Policy

Rapid Response Policy



## Emergency Response Decision Tree





## POLICY

Title: **PHYSICIAN SUPERVISION ANALYSIS PROCESS HOSPITAL  
OUTPATIENT THERAPEUTIC SERVICES**

Policy Number:  
PC-07337

Page 2

**SPECIFIC OUTPATIENT THERAPEUTIC SERVICE**  
(Complete this chart for each therapeutic service)

Clinical Service:	List / Explain	Response to issues (may include calling 911 or code team)	Who should respond to issues (type of <b>clinician</b> by certification and/or training- should be a Physician or Non-Physician Practitioner (NPP))	How quickly should the Clinician respond in person to the issue? (use time measure in minutes)	Other Comments
_____					
Potential Clinical Issues (Problems)					
Potential Equipment Issues (Malfunction, etc.)					
Potential Patient Safety Issues					
Other Issues					

## II. WHO MAY SUPERVISE

- Based on the Clinician(s) identified as possible Supervisor(s) for each Outpatient Therapeutic Service through the clinical analysis described above, consider the following:
  - Is the Clinician a Physician or NPP? If Yes, continue to next question. If No, must reconsider Clinician to be either a Physician or NPP due to regulatory requirements
  - *For cardiac rehabilitation, intensive cardiac rehabilitation or pulmonary rehabilitation services, the Clinician as Supervisor must be a Physician and may not be a NPP*
  - Do the Clinician's hospital credentials allow him or her to provide the responses identified in the clinical analysis? If Yes, continue to next question. If No, either reconsider Clinician as Supervisor to be someone who is appropriately credentialed or reconsider the scope of credentials, including whether the Clinician can obtain training to meet specific requirements for credentialing (if this is an option, describe the training that would be necessary for each type of Clinician)
  - If the Clinician is a NPP, does the NPP's state license scope include the ability to provide the responses identified in the clinical analysis? If Yes, continue to next question. If No, reconsider the use of the Clinician as a Supervisor

**POLICY**

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**Title: PHYSICIAN SUPERVISION ANALYSIS PROCESS HOSPITAL  
OUTPATIENT THERAPEUTIC SERVICES**

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**Policy Number:  
PC-07337**Page 3

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- Describe the Clinician who may supervise during the routine daily absences of the identified Supervisor (lunch breaks, etc.)
- Describe the Clinician who may supervise during the non-routine absences of the identified Supervisor (vacations, illness, etc.)

**III. LOCATION OF SUPERVISOR**

- For each Clinician as Supervisor who meets the qualifications of part II above, describe the location where the Clinician as Supervisor typically furnishes other patient care services and describe the distance from and walking time to the hospital outpatient department in which the Outpatient Therapeutic Services are furnished
- Does the distance and walking time described above fall within the timeliness of the clinically appropriate response stated in the table above?
- Is the distance and walking time described above within a reasonable notion of "immediately available"?
- Is each Clinician as Supervisor "interruptible" from typical tasks? If the Clinician as Supervisor from section II above is a hospitalist or ED physician, describe how supervision policies and practices can be implemented to ensure that these types of Clinicians as Supervisors can be determined to be interruptible from their typical duties

---

**Key Contact:** Susan Izell, Associate Corporate Responsibility Officer**Approved/Reviewed by:** Rhonda Poulson, CNO**Date First Effective & (Revision/Review dates):** 12/13 (11/17)**Distribution:** MHCS Intranet



## POLICY

Title: <b>RAPID RESPONSE</b>			
		Page 1 of 5	
Policy Number: PC- 07103		Date Last reviewed/Revised: 12/17	Valid Until: 12/20
Department(s) Affected: All Clinical Areas		Review Period: every 3 years	

### **OUTCOME:**

To provide care to an individual whose condition is deteriorating and an appropriate treatment plan is not readily available. The goal of the Rapid Response Team (RRT) is to improve outcomes by providing a means for rapid and timely intervention of a declining individual.

### **POLICY:**

Per the federal law, EMTALA (The Emergency Medical Treatment and Labor Act), any person who presents anywhere on the hospital campus and who would appear to be a reasonably prudent person to be in need of medical attention must be treated under EMTALA. (This includes other areas and structures not strictly contiguous to the main buildings, but located within 250 yards of the main buildings).

RRT does not respond to physician office buildings.

*\* For Emergencies in Physician Office Buildings please call Ext. 3677. Dispatch will send CHI Memorial EMS or contact #911 if an ambulance is not available.*

### **1. Criteria Guidelines for Initiating the RRT**

Any or all of the criteria meets the guidelines for initiating the RRT Team:

- a. Need for additional clinical opinion: concerned, unsure, scared, safety concern,
- b. Acute change in heart rate <40 or >130 beats per minute
- c. Acute change in systolic blood pressure <90 mmHg
- d. Acute change in respiratory rate <8 or >28 breaths per minute
- e. Acute and persistent change in saturation <90% with oxygen
- f. Acute change in level of consciousness
- g. Seizures
- h. Neurological changes consistent with symptoms of stroke
  - i. Sudden numbness or weakness of face, arms and legs – especially on one side
  - ii. Sudden confusion or trouble speaking/understanding
  - iii. Sudden dimness or loss of vision in one or both eyes
  - iv. Sudden trouble walking, dizziness, loss of balance or coordination
  - v. Sudden severe headache with no known cause
- i. Typical or atypical signs of Acute Coronary Syndrome.

### **2. RRT Structure**

The RRT is a group of clinicians who will bring critical care expertise to the declining patient bedside/area. The Team will consist of an ACLS-trained ICU RN, a Respiratory Therapist (RT) and the floor nurse caring for the patient. The Intensive Care Units and the Pulmonary Services Departments are responsible for having a designated RRT responder on all shifts. *[The Memorial Hixson team RN will be an ACLS-trained ICU RN or Emergency Center RN.]*

### **3. Activation of RRT**

- a. Notify Primary M.D / Hospitalist.
- b. *Any Individual may call for the RRT when rapid assessment and intervention is deemed necessary for a declining patient based on the criteria guidelines.*
- c. *After a brief assessment, the nurse shall call @ 3677 (Glenwood) or @ 555 from a land line (Hixson) and provide the location of the individual, the chief complaint, contact number and any additional pertinent information*
- d. *Notify Primary RN (if not present) if a RRT is called on her/his patient if applicable.*

### **4. RRT Responsibilities**

- a. The RRT will respond to the page.

## POLICY

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**Title: RAPID RESPONSE**


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Policy Number:

PC-07103

Page 2

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- b. The floor nurse shall have prepared for the team:
    - 1) Patient chart
    - 2) Current medications
    - 3) Recent vital signs
  - c. The floor nurse must remain at the patient bedside and assist the RRT.
  - d. The floor nurse should be prepared to provide the following information upon arrival of the RRT:
    - 1) What prompted the RRT call?
    - 2) Allergies
    - 3) Current HR, RR, BP, Temp
    - 4) Pertinent medications
    - 5) Interventions already attempted & results
    - 6) Pertinent history
    - 7) Code status
    - 8) Recent diagnostic tests
  - e. The RN is deemed team leader and will perform the initial assessment and assist the floor nurse with:
    - 1) Physician communication;
    - 2) Obtaining appropriate orders; and
    - 3) Initiation of physician orders.
  - f. The Respiratory Therapist will perform a complete respiratory assessment and initiate intervention as appropriate.
  - g. The team will:
    - 1) Collaborate assessment findings and recommendations for intervention;
    - 2) Immediately implement treatment or diagnostic services as appropriate per policy;
    - 3) Call a CODE BLUE and initiate ACLS procedures as appropriate per policy (Refer to **CODE BLUE/CODE FIVE (PC-07010)**);
    - 4) Communicate with Primary MD / Hospitalist regarding RRT assessment, if applicable.
    - 5) Based on assessment findings and communication with Primary MD / Hospitalist, RRT may request the MD presence at bedside or if additional consultations are needed. If a transfer to the ICU is indicated the Primary MD will do a verbal handoff to the accepting Intensivists.
    - 6) Assist with implementation of physician order; and
    - 7) Assist with transport of patient when necessary.
  - h. If patient is unstable and no response from Primary MD / Hospitalist within fifteen (15) minutes, notify House Administrator and utilize appropriate chain of command—administrative and/or medical staff.
  - i. **For emergent situations, For additional assistants, RRT may contact onsite Intensivists (Glenwood) and onsite Hospitalists (Hixson).**
  - j. If patient meets ICU admission criteria, patient may be transferred to ICU after consult with the House Administrator and the Intensivists on-call. Refer to Policy **ICU-04200 ADMISSION CRITERIA - CRITICAL CARE**.
  - k. Continued attempts will be made until attending physician is contacted.
5. **Assessment Guidelines**
- a. The RRT Team will follow the SBAR process for assessing and communicating. SBAR is an acronym for **S**ituation, **B**ackground, **A**ssessment, and **R**ecommendation. The floor nurse will get a "SAMPLE" of the patient history for the initial assessment:
    - **S**igns and symptoms
    - **A**llergies
    - **M**edications
    - **P**ast medical/surgical history
    - **L**ast meal
    - **E**vents precipitating this occurrence
  - b. The RN will perform the initial assessment to include and/or consider:
 

• Vital signs	• Swallow
• Blood glucose	• Pain
• Cardiac rhythm	• Anxiety
• Neurological status	• Recent medication history

**POLICY**


---

**Title: RAPID RESPONSE**


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Policy Number:  
PC-07103

Page 3

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- Fluid status
  - Level of function
  - Skin condition
  - Lab values
  - Diagnostic test results
- c. In the event of an **acute Stroke**, call Patient Intake Center @ 2920 to initiate a Stroke Alert.
- 1) Notify Primary M.D./ Hospitalist.
  - 2) Begin documentation using the FORM-STROKE ALERT (198195).
  - 3) Order CT without contrast- BRAIN STROKE PROTOCOL and immediately transport to Radiology
- d. If the primary care RN or RRT RN suspects atypical or typical signs of **Acute Coronary Syndrome**:
- 1) Obtain a STAT EKG
  - 2) If patient admitted to Cardiology notify physician of patient's condition. If no Cardiology attached notify Intensivists / Hospitalists onsite for EKG interpretation.
  - 3) If necessary notify Intensivist on site for EKG interpretation.
  - 4) If STEMI is identified notify Patient Intake @ 2920 to launch Code STEMI process.
  - 5) If ACS, symptomatic, and in need of urgent cath, the physician can notify the interventionalist on call @ 2920 to launch the urgent cath process.
  - 6) Initiate STEMI Order Set (PSO # 1946).
  - 7) Begin documentation on Code STEMI Notes (135035).  
(Refer to ACS Flowchart attachment and STEMI ACTIVATION OF THROMBOLYTIC (PC-07189); STEMI, IDENTIFICATION AND TREATMENT OF (ECC-01082); ECG FOR ACUTE CORONARY SYNDROME SYMPTOMS (PC-07320))
- c. The RT will perform the initial respiratory assessment to include and/or consider:
- 1) Breath sounds
  - 2) Work of breathing
  - 3) Chest assessment
  - 4) Oxygenation
  - 5) Airway clearance
  - 6) Ventilation
  - 7) Recent respiratory history (*last treatment given*)
  - 8) Past respiratory history
  - 9) LOC
  - 10) Fluid status
  - 11) Pain and/ or anxiety
  - 12) Pertinent lab values
  - 13) Pertinent diagnostic test results
6. **RRT Immediate Interventions**
- a. The RT may initiate the following prior to physician contact:  
**Refer to PHYSICIAN STANDING ORDERS (PSO)(RC-04510)**
- (1) Oral, nasal, nasal tracheal, or artificial airway suctioning
  - (2) Placement of an oral or nasal airway (except patients having recent ENT or oral surgery and/or complications)
  - (3) Hand held nebulizer with 2.5 mg Albuterol and 3 ml NaCl x1
  - (4) Arterial blood gas puncture
  - (5) Oxygen application
  - (6) Initiation of CPAP/BiPAP
  - (7) I- STAT testing for lactate, ABGs, and electrolytes.
  - (8) RESPIRATORY DISTRESS STANDING ORDER – PULMONARY SERVICES and BRONCHODILATOR PROTOCOL (PUL-01920)
- b. The RN may initiate the following prior to physician contact: **Refer to PHYSICIAN STANDING ORDERS (PSO)(RC-04510)** and applicable PSO.
- (1) 12 lead EKG

**POLICY**

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**Title: RAPID RESPONSE**

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**Policy Number:**  
PC-07103Page 4

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- (2) Chest Xray
- (3) Cardiac monitoring
- (4) Currently ordered PRN medications
- (5) Oxygen application
- (6) Establish intravenous access
- (7) Insert nasogastric tube
- (8) Lab work pertinent to the assessment findings
- (9) Refer to ACS Flowchart attachment ; STEMI ACTIVATION OF THROMBOLYTIC (PC-07189); STEMI, IDENTIFICATION AND TREATMENT OF (ECC-01082) ; and ECG FOR ACUTE CORONARY SYNDROME SYMPTOMS (PC-07320)

**7. RRT Equipment**

The following supplies and equipment may be needed:

- a. Personal protective equipment should be available at the bedside
- b. Oxygen
- c. Suction regulator and canister, tubing, yankauer
- d. Suction regulator or unit
- e. ABG kits
- f. Hand held nebulizer
- g. Pulse oximeter
- h. BP manometer and thermometer
- i. Code cart and defibrillator should the event progress to a code blue
- j. Medications as ordered
- k. EKG will be notified as needed
- l. I-STAT

**8. Documentation**

- a. The RRT will document on the designated RRT Documentation Record (150130)
- b. The nurse will transcribe physician orders in the patient chart and MAR.
- c. The document will be filed in the patient chart under the Code 99/RRT.
- d. A copy will be placed in the Responding Units designated location.
- e. The Code Blue Committee will review RRT responses to identify opportunities for education and/or improvement.

**9. Communication**

The RRT RN will communicate the assessment findings and recommendations of the team to the physician in the SBAR format.

**10. Non-InPatients and Visitors**

For any non-inpatients, the intent of a rapid response team is to assess, provide support, stabilize and facilitate the provision of care if they are indeed having a health event. A health event may be defined by any of the criteria:

- a. **Need for additional clinical opinion: concerned, unsure, scared, safety concern,**
- b. Acute change in respiratory rate
- c. *Acute change in level of consciousness*
- d. Seizures
- e. Neurological changes consistent with symptoms of stroke
- f. Typical or atypical signs of Acute Coronary Syndrome.

Once the non-inpatient has been assessed and stabilized by the rapid response team, further evaluation should be offered. In cases requiring emergency department evaluation, the following activities should be completed.

- a. The House Supervisor will notify the ED of patient's arrival.
- b. The clinician/qualified medical personnel should use their best judgment for each situation whether to transfer to the ED or call EMS Dispatch-ext. 3677 for EMS transport.
- c. The rapid response team transports the individual by wheelchair or stretcher to the Emergency Department. The exception would be if the Rapid Response call occurred outside the

**POLICY**

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**Title: RAPID RESPONSE**

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**Policy Number:**  
PC-07103Page 5

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facility then EMS Dispatch would be called at ext. 3677 for EMS transport.

- d. Rapid response team gives verbal report using the SBAR format.
- e. Rapid response team completes documentation.

**\*If at any point the individual is progressing toward or experiencing a cardiopulmonary arrest; call for a code team response. Patients who are rapidly deteriorating and will likely need emergent interventions to prevent cardiopulmonary arrest should also have a code team response. CODE BLUE / CODE (5) (PC-07010)**

**11. Daily Duties of the Rapid Response Team**

- a. Document Rapid Response Medication Kit information on the Rapid Response Daily Check Log
- b. Off-going and on-coming rapid response team members are to document the Equipment Bag Checklist together

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**Key Contact:** Amanda Reed, Code Blue Committee; STEMI Coordinator**Approved/Reviewed by:** Nursing Professional Practice Council; Code Blue Committee; Rhonda Poulson, CNO**Joint Commission Standard:** Provision of Care Chapter (PC) PC 02.02.03**Reference:** Institute for Healthcare Improvement, 100k Lives Campaign, Getting Started Kit: Rapid Response Teams. How to Guide.  
<http://www.ihl.org/IHI/Programs/Campaign>. <https://www.guideline.gov/summaries/summary/34271>  
EMTALA (Emergency Medical Treatment and Labor Act); <http://www.emtala.com/>EMTALA - AAEM: American Academy of Emergency Medicine**Related Form (s):** ACS Internal Flowchart GW, ACS Internal Flowchart HX, South Tower to CCL Map, North Tower to CCL Map, Rapid Response Decision Flowchart, Medication Kit Secure Process, Rapid Response Daily Check Log**Date First Effective/Revisions:** 9/05 (3/06) (6/10), (9/10), (1/11) (4/14) (4/15) (1/17) (4/17) (6.17) (12/17)**Distribution:** CHI Memorial Intranet

# SUPPLEMENTAL ATTACHMENTS

Section B

Need-1-6D

Medical Necessity

**POLICY**

Title: <b>H &amp; P/CONSULT</b>		
Page 1 of 1		
Policy Number: <b>ROP-00060</b>	Date Last reviewed/Revised: <b>10/15</b>	Valid Until: <b>10/18</b>
Department(s) Affected: <b>Radiation Oncology</b>	Review Period: <b>every 3 years</b>	

**OUTCOME:** To ensure the consult of the radiation oncology patient is complete and meets ACR guidelines.

**POLICY:**

It is the standard of care of Memorial Hospital Radiation Oncology Department that a complete H & P shall be in the patient's electronic chart prior to RT treatment. The physician is responsible for providing the front office a copy of the H & P if it is complete. The H & P shall not be over 30 days old, and shall include:

- Assessment of patient
- Past medical history
- Review of symptoms
- Review of imaging studies and laboratory data
- Histopathology diagnosis
- Recommendations for treatment

It is the front office's responsibility for locating H & P's prior to treatment. Also, when Physics is checking chart prior to treatment, they will double check the chart to make sure the H & P is located in document section of ARIA. If not, they will be responsible for notifying front office coordinator and/or department manager. If the H & P cannot be found, they will be responsible for notifying physician. If H & P is not in chart by 4 pm on the day before the patient is to start, the patient will be rescheduled according to physician availability.

---

**Key Contact:** Renee Epps

**Approved/Reviewed by:** Eric Ellis, MD and Kathy Dittmar Cancer Administration, ACR Committee

**Date First Effective & (Revision/Review dates):** 10/12 (10/15)

**Distribution:** MHCS Intranet

**POLICY**

Title: <b>CHART ROUNDS RADIATION ONCOLOGY</b>		
Page 1 of 1		
Policy Number:	Date Last reviewed/Revised: 7/14	Valid Until: 7/17
Department(s) Affected: Radiation Oncology	Review Period: every 3 years	

**OUTCOME:** To improve clinical quality and safety of each patient that receives radiation treatment.

**PERSONNEL:** Radiation Oncologists, Dosimetrists, Physicists, Therapists, Nutritionists, Social Workers

**POLICY:**

It is the policy of the Rees Skillern Cancer Institute Radiation Oncology Department that each patient beginning radiation therapy be presented and reviewed in Chart Rounds. Chart Rounds occur weekly unless special occasions arise when it cannot be held. This event is open to all Cancer Institute employees. A comprehensive list of patients is made weekly and includes the patient's name, age, diagnosis, and the date we received the history and physical as well as the path report. This list also contains a Morbidity and Mortality list of patients. Physicians are to attend and go over each of their patients. Discussions include their history, staging and their treatment dose they have prescribed. Also patient positioning and other special instructions are discussed. Often times there are suggestions to change field sizes, doses, etc. based on the peer review of these patients. At the end of Chart Rounds the M & M list is presented and discussions are held as to why a patient is on break or is deceased. Attendance is recorded and stored on the G:drive under Radiation Oncology.

---

**Key Contact:** Renee Epps

**Approved/Reviewed by:** Dr. Eric Ellis and Kathy Dittmar Cancer Administration

**Reference(s):** AAPM Task Group 40

**Date First Effective & Revision/Review dates:** 7/14

**Distribution:** MHCS Intranet



**POLICY**

Title: <b>ROLE AND RESPONSIBILITY OF MEDICAL DIRECTOR</b>			
Page 1 of 1			
Policy Number: <b>ROP-00032</b>		Date Last reviewed/Revised: <b>2/17</b>	Valid Until: <b>2/20</b>
Department(s) Affected: <b>Radiation Oncology</b>		Review Period: <b>Every 3 years</b>	

**OUTCOME:**

The Medical Director of the Radiation Oncology Department is a physician member of the medical staff who is qualified by education and experience in radiation oncology, is clinically competent, and possesses the administrative skills necessary to assure effective leadership of the department.

**POLICY:**

The responsibilities of the Medical Director of the radiation oncology department/service, which may be appropriately delegated, include:

1. Developing or approving all department / service policies and procedures.
2. Developing comprehensive safety rules in cooperation with the hospital's safety committee and the hospital's radiation safety committee, if one exists.
3. Recommending to the medical staff, for its approval, a source(s) for patient care services not provided by the hospital; and there is a description of the means for providing radiation oncology services when they are not directly provided by the hospital.
4. Developing and implementing a planned and systematic process for monitoring and evaluating the quality of all radiation oncology services.
5. Being readily available to the hospital management for administrative and consultative decisions.
6. Assuring that a qualified designee acceptable to the hospital is readily available for administrative and consultative decisions when the Medical Director is unavailable.
7. The Medical Director is responsible for the institution and ongoing supervision of the continuing quality improvement (CQI) program. It is his/her responsibility to identify problems, see that actions are taken, and evaluate the effectiveness of the actions.

---

**Key Contact:** Jenna Bowman, Lead Radiation Therapist Radiation Oncology

**Approved/Reviewed by:** Deb Moore and Eric Ellis, Cancer Services Administration

**Date First Effective & (Revision/Review dates):** 5/01 (10/06) (11/08) (09/09) (10/13) (10/16) (2/17)

**Distribution:** MHCS Intranet

# SUPPLEMENTAL ATTACHMENTS

## Section B Need-1-8A MUA Records

HRSA Data Warehouse

State: Tennessee  
 County: Marion County  
 MUA ID: All

County Name	County FIPS Code	Service Area Name	MUA/P Source Identification Number	Designation Type	Population Type	Index of Medical Underservice Score	MUA/P Designation Date	MUA/P Update Date
Marion County	115	MARION SERVICE AREA	03215	Medically Underserved Area	Medically Underserved Area	53.30	11/01/1978	11/01/1978

Powered by HRSA Data Warehouse

Printed on: 1/24/2018

HRSA Data Warehouse

State: Tennessee  
 County: Rhea County  
 MUA ID: All

County Name	County FIPS Code	Service Area Name	MUA/P Identification Number	Designation Type	Population Type	Index of Medical Underservice Score	MUA/P Designation Date	MUA/P Update Date
Rhea County	143	RHEA SERVICE AREA	03226	Medically Underserved Area	Medically Underserved Area	55.50	11/01/1978	11/01/1978

Powered by HRSA Data Warehouse

Printed on: 1/24/2018

# HRSA Data Warehouse

State: Tennessee  
 County: Sequatchie County  
 MUA ID: All

County Name	County FIPS Code	Service Area Name	MUA/P Source Identification Number	Designation Type	Population Type	Index of Medical Underservice Score	MUA/P Designation Date	MUA/P Update Date
Sequatchie County	153	Sequatchie County	1479387286	Medically Underserved Area	Medically Underserved Area	61.00	11/01/1978	04/13/2017

Powered by *HRSA Data Warehouse*

Printed on: 1/24/2018

# APPLICATION ATTACHMENTS

## Attachment C

# APPLICATION ATTACHMENTS

## Section B

### B-Economic Feasibility-1E

### Architect Letter



*Moving forward together to create environments that shape lives.*

January 1st, 2018

Mr. Andrew McGill  
Vice President Business Development  
Memorial Health Care System  
2525 DeSales Avenue  
Chattanooga, TN 37404

**RE: CERTIFICATE OF NEED APPLICATION  
MEMORIAL HIXSON CANCER CENTER WITH LINEAR ACCELERATOR  
HIXSON, TN**

Dear Mr. McGill:

The drawings and probable construction costs we have prepared have been reviewed and compared to other recently designed medical projects in the area. While the construction market is currently in an unpredictable pricing market for all construction, we believe that the costs are reasonable. Earl Swensson Associates, Inc., richard l. miller, architect (Tennessee Registration #31229) statement of probable construction cost of \$2,799,901 (or \$591 per square foot) is, in our professional opinion, reasonable for the following scope of work:

- Linear Accelerator Vault
- Cancer Center
- Based on 4,732 SF Program

Factors that always remain out of our control are inflation which must be factored into a multi-year project such as this one and market conditions.

As the Architect of Record for this project, Earl Swensson Associates, Inc. will oversee the design and verify that it is designed to meet state and local codes.

If you have questions or need further clarification, please do not hesitate to contact us.

Sincerely,  
**EARL SWENSSON ASSOCIATES, INC.**  
richard l. miller, architect

Richard L. Miller, FAIA, EDAC  
CEO/President/Principal

cc: Kevin Harney  
Charlie Jorgensen



# APPLICATION ATTACHMENTS

## Section B B-Economic Feasibility-2 CFO Letter



January 8, 2018

Melanie Hill  
Executive Director  
Tennessee Health Services and Development Agency  
Andrew Jackson State Office Building  
502 Deadrick Street, 9<sup>th</sup> Floor  
Nashville, Tennessee 37243

Dear Ms. Hill,

This is to certify that CHI Memorial Health Care System has adequate financial resources to fund the project from cash reserves to initiate radiation therapy services at CHI Memorial Hospital – Hixson. The total project cost is estimated at \$8,468,322.88.

Sincerely,

A handwritten signature in black ink, appearing to read "Troy Hammett", is written over a horizontal line.

Troy Hammett, FACHE, CPA  
SVP and CFO - CHI Southeast Division and  
CHI Memorial Health Care System  
(423) 495-7452 Office  
(614) 499-7321 Mobile

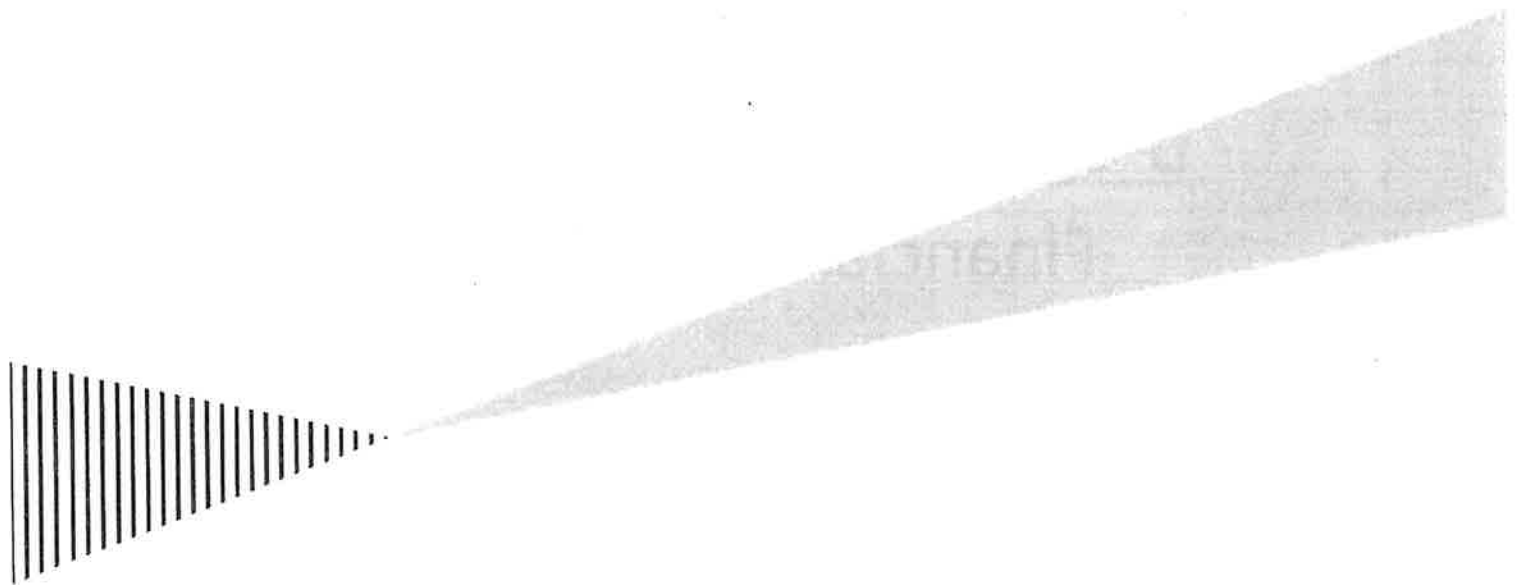
# APPLICATION ATTACHMENTS

## Section B B-Economic Feasibility-6A Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Catholic Health Initiatives  
Years Ended June 30, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



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## Catholic Health Initiatives

Consolidated Financial Statements  
and Supplementary Information

Years Ended June 30, 2017 and 2016

**Contents**

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Consolidated Financial Statements	
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Consolidated Statements of Changes in Net Assets .....	6
Consolidated Statements of Cash Flows .....	7
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Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	62
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2017 Consolidating Statement of Operations .....	65



Ernst & Young LLP  
Sulte 3300  
370 17th Street  
Denver, CO 80202

Tel: +1 720 931 4000  
Fax: +1 720 931 4444  
ey.com

## Report of Independent Auditors

The Board of Stewardship Trustees  
Catholic Health Initiatives

We have audited the accompanying consolidated financial statements of Catholic Health Initiatives, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives as of June 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

September 15, 2017

## Catholic Health Initiatives

Consolidated Balance Sheets  
(In Thousands)

	June 30	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 1,033,166	\$ 1,305,242
Net patient accounts receivable, less allowances for bad debts of \$1,024,099 and \$968,148 at June 30, 2017 and 2016, respectively	2,154,248	2,161,237
Other accounts receivable	251,137	274,432
Current portion of investments and assets limited as to use	65,161	63,146
Inventories	302,406	280,623
Assets held for sale	582,344	665,428
Prepaid and other	153,626	147,554
Total current assets	4,542,088	4,897,662
Investments and assets limited as to use:		
Internally designated for capital and other funds	5,310,808	4,952,065
Mission and ministry fund	126,795	125,166
Capital resource pool	136,585	261,572
Held by trustees	76,850	113,235
Held for insurance purposes	876,922	841,048
Restricted by donors	258,511	264,949
Total investments and assets limited as to use	6,786,471	6,558,035
Property and equipment, net	8,569,313	9,034,052
Investments in unconsolidated organizations	1,321,453	1,260,021
Intangible assets and goodwill, net	473,837	462,838
Notes receivable and other	238,588	446,522
Total assets	<u>\$ 21,931,750</u>	<u>\$ 22,659,130</u>



*While it is possible that some patients who reside outside the service area may receive radiation therapy treatments at the Hixson location, we anticipate the vast majority of patients served will be residents of the service area. For conservative planning purposes, we relied on only service area patients for projected volumes.*

#### **11. Section B, Need, Item 5**

Please note the applicant is applying for a Certificate of Need for initiation of linear accelerator services and the acquisition of one (1) fixed linear accelerator rather than the relocation of services. Please describe the existing and approved but unimplemented services of similar providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization (procedures) individually.

*As noted under item 1 on page 13 of the original application, the project will in fact relocate existing linear accelerator capacity. We are not aware of any approved but unimplemented projects for linear accelerator services by other providers in the service area. Historical utilization of all linear accelerators in the service area is provided in the table under item 2 on page 14 of the original application.*

#### **12. Section B, Economic Feasibility Item 1 (Project Costs Chart)**

The estimated Project Cost of \$8,419,909 is noted. However, the estimated Project Cost calculates to \$8,420,392. Please submit a corrected Project Costs Chart and a check for \$3.25 payable to HSDA for the difference in the CON Filing Fee.

*A revised chart is provided as Attachment 23R. A check made payable to HSDA for \$3.25 is included within the mailed submission of these responses.*

#### **13. Section B, Economic Feasibility Item 2 (Funding)**

It is noted the proposed project will be funded through cash reserves from CHI Memorial Health Care System. However, according to audited financial statements for the period ending June 30, 2017 the current ratio of Catholic Health Initiatives is .97 to 1 (\$4,542,088/\$4,697,502). A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities. Please clarify how the applicant will adequately fund the proposed project with a current ratio of .97 to 1.

*While the 0.97:1 ratio represents the current assets-to-current liabilities of Catholic Health Initiatives, the organization holds \$5.3 billion to cover capital projects and an additional \$137 million in a capital resource pool to pay for needed capital projects. Locally, CHI Memorial holds \$48.7 million in cash with liquid investments of \$225 million to pay for this capital investment as of 6/30/2017. Please note, Attachment B-Economic Feasibility-6A - Financial Statements Notes references the aforementioned values and reveals CHI Memorial's assets-to-liabilities ratio is 2.62:1.*

#### **14. Section B, Economic Feasibility, Item 3. (Historical Data Chart) Page 25**

The Historical Data Chart for the Total Facility is noted. However, the 2016 (\$13,619,879) and 2017 (\$12,819,850) figures in line D.6 "Other Operating

	June 30	
	2017	2016
<b>Liabilities and net assets</b>		
Current liabilities:		
Compensation and benefits	\$ 642,623	\$ 682,053
Third-party liabilities, net	85,087	114,065
Accounts payable and accrued expenses	1,689,849	1,750,402
Liabilities held for sale	165,735	175,239
Variable-rate debt with self-liquidity	96,700	96,700
Commercial paper and current portion of debt	2,017,508	1,768,028
Total current liabilities	4,697,502	4,586,487
Pension liability	1,110,983	1,535,840
Self-insured reserves and claims	635,780	646,714
Other liabilities	1,172,549	1,262,068
Long-term debt	6,588,202	7,180,925
Total liabilities	14,205,016	15,212,034
Net assets:		
Net assets attributable to CHI	7,047,905	6,704,217
Net assets attributable to noncontrolling interests	367,483	423,424
Unrestricted	7,415,388	7,127,641
Temporarily restricted	214,250	224,524
Permanently restricted	97,096	94,931
Total net assets	7,726,734	7,447,096
Total liabilities and net assets	<u>\$ 21,931,750</u>	<u>\$ 22,659,130</u>

*See accompanying notes.*

## Catholic Health Initiatives

Consolidated Statements of Operations  
(In Thousands)

	Year Ended June 30	
	2017	2016
Revenues:		
Net patient services revenues before provision for doubtful accounts	\$ 15,335,886	\$ 14,688,559
Provision for doubtful accounts	(885,018)	(841,532)
Net patient services revenues	14,450,868	13,847,027
Other operating revenues:		
Donations	30,954	36,983
Changes in equity of unconsolidated organizations	48,404	133,375
Gains on business combinations	—	223,036
Hospital ancillary revenues	339,072	351,509
Other	678,166	597,657
Total other operating revenues	1,096,596	1,342,560
Total operating revenues	15,547,464	15,189,587
Expenses:		
Salaries and wages	6,294,834	6,117,712
Employee benefits	1,201,044	1,182,203
Purchased services, medical professional fees, medical claims and consulting	2,402,478	2,232,689
Supplies	2,550,328	2,490,524
Utilities	210,285	212,732
Rentals, leases, maintenance and insurance	901,272	898,020
Depreciation and amortization	846,291	833,394
Interest	295,476	281,581
Other	1,056,536	1,019,385
Total operating expenses before restructuring, impairment and other losses	15,758,544	15,268,240
Loss from operations before restructuring, impairment and other losses	(211,080)	(78,653)
Restructuring, impairment and other losses	374,167	292,758
Loss from operations	(585,247)	(371,411)
Nonoperating gains (losses):		
Investment gains (losses), net	638,519	(3,384)
Losses on extinguishment of debt	(19,586)	(29,469)
Realized and unrealized gains (losses) on interest rate swaps	92,698	(154,816)
Other nonoperating gains (losses)	2,006	(16,491)
Total nonoperating gains (losses)	713,637	(204,160)
Excess (deficit) of revenues over expenses	128,390	(575,571)
Excess of revenues over expenses attributable to noncontrolling interest	19,948	25,082
Excess (deficit) of revenues over expenses attributable to CHI	\$ 108,442	\$ (600,653)

See accompanying notes.

## Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets  
(In Thousands)

	Unrestricted Net Assets			Temporarily Restricted Net Assets		Permanently Restricted Net Assets		Total Net Assets
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Assets	Assets	Assets	Assets	
Balances, July 1, 2015	\$ 8,150,235	\$ 445,687	\$ 8,595,922	\$ 268,317	\$ 97,776	\$ 8,962,015		
(Deficit) excess of revenues over expenses	(600,653)	25,082	(575,571)	-	-	(575,571)		
Net loss from discontinued operations	(133,469)	(21,056)	(154,525)	-	-	(154,525)		
Change in pension funded status	(768,468)	(4,877)	(773,345)	-	-	(773,345)		
Temporarily and permanently restricted contributions	-	-	-	39,276	-	3,487		42,763
Net assets released from restriction for capital	66,487	-	66,487	(66,487)	-	-		-
Net assets released from restriction for operations	-	-	-	(17,912)	-	-		(17,912)
Investment income (losses)	423	-	423	27	(378)	72		72
Temporarily and permanently restricted assets from acquisitions	-	-	-	11,672	2,531	14,203		14,203
Temporarily and permanently restricted assets from dispositions	-	-	-	(5,700)	(11,373)	(17,073)		(17,073)
Distributions to noncontrolling owners	-	(19,669)	(19,669)	-	-	(19,669)		(19,669)
Noncontrolling ownership acquisitions	-	9,275	9,275	-	-	9,275		9,275
Other changes in net assets	(10,338)	(11,018)	(21,356)	(4,669)	2,888	(23,137)		(23,137)
Net decrease in net assets	(1,446,018)	(22,263)	(1,468,281)	(43,793)	(2,845)	(1,514,919)		(1,514,919)
Balances, June 30, 2016	6,704,217	423,424	7,127,641	224,524	94,931	7,447,096		
Excess of revenues over expenses	108,442	19,948	128,390	-	-	128,390		128,390
Net loss from discontinued operations	(134,388)	(18,500)	(152,888)	-	-	(152,888)		(152,888)
Change in pension funded status	335,923	73	335,996	-	-	335,996		335,996
Temporarily and permanently restricted contributions	-	-	-	40,754	2,034	42,788		42,788
Net assets released from restriction for capital	33,737	-	33,737	(33,737)	-	-		(19,939)
Net assets released from restriction for operations	(423)	-	(423)	(19,939)	1,113	8,501		8,501
Investment (losses) income	-	-	-	7,811	-	(28,935)		(28,935)
Distributions to noncontrolling owners	397	(28,527)	(28,130)	(5,163)	(982)	(34,275)		(34,275)
Other changes in net assets	343,688	(55,941)	287,747	(10,274)	2,165	279,638		279,638
Net increase (decrease) in net assets	\$ 7,047,905	\$ 367,483	\$ 7,415,388	\$ 214,250	\$ 97,096	\$ 7,726,734		
Balances, June 30, 2017								

See accompanying notes.

## Catholic Health Initiatives

Consolidated Statements of Cash Flows  
(In Thousands)

	Year Ended June 30,	
	2017	2016
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 279,638	\$ (1,514,919)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	846,291	833,394
Provision for bad debts	885,018	841,532
Changes in equity of unconsolidated organizations	(48,404)	(133,375)
Net gains on business combinations	—	(223,036)
Net gains on sales of facilities and investments in unconsolidated organizations	(195,583)	(244,003)
Noncash operating expenses related to restructuring, impairment and other losses	110,453	143,977
Losses on extinguishment of debt	19,586	29,469
(Increase) decrease in fair value of interest rate swaps	(127,866)	116,327
Noncash pension adjustments	(345,344)	806,373
Pension cash contributions	(79,513)	(19,521)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	(850,461)	(974,031)
Other current assets	(27,796)	35,815
Current liabilities	(101,894)	99,709
Other changes	30,246	107,291
Net cash used in operating activities, before net change in investments and assets limited as to use	394,371	(94,998)
Net (increase) decrease in investments and assets limited as to use	(246,020)	703,181
Net cash provided by operating activities	148,351	608,183
<b>Investing activities</b>		
Purchases of property, equipment, and other capital assets	(705,147)	(885,054)
Investments in unconsolidated organizations	(106,082)	(62,670)
Business acquisitions, net of cash acquired	(64,432)	(2,453)
Proceeds from asset sales	597,434	750,266
Distributions from investments in unconsolidated organizations	39,696	65,411
Loans to unconsolidated affiliates	(3,721)	—
Net repayments of notes receivable	148,154	16,575
Other changes	(12,380)	(12,711)
Net cash used in investing activities	(106,478)	(130,636)
<b>Financing activities</b>		
Proceeds from issuance of debt and bank loans	240,129	993,998
Costs associated with issuance of debt	—	(1,076)
Repayment of debt	(636,114)	(948,871)
Swap cash collateral received (posted)	82,036	(164,725)
Net cash used in financing activities	(313,949)	(120,674)
(Decrease) increase in cash and equivalents	(272,076)	356,873
Cash and equivalents at beginning of period	1,305,242	948,369
Cash and equivalents at end of period	\$ 1,033,166	\$ 1,305,242
<b>Supplemental disclosures of noncash investing activity</b>		
Noncash purchases of property and equipment	\$ 53,881	\$ 77,983
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for interest, including amounts capitalized	\$ 325,142	\$ 324,799

See accompanying notes.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

**1. Summary of Significant Accounting Policies****Organization**

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBO) and other facilities operating in 17 states and includes 101 hospitals, including four academic medical centers, and 29 critical access facilities; community health service organizations; accredited nursing colleges; home health agencies; and other facilities that span the inpatient and outpatient continuum of care. CHI also has an offshore captive insurance company, First Initiatives Insurance, Ltd. (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, supported by education and research. Fidelity to the Gospel urges CHI to emphasize human dignity and social justice as CHI creates healthier communities.

**Principles of Consolidation**

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

**Fair Value of Financial Instruments**

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable and accounts payable. The carrying amounts reported in the consolidated balance sheets for these items, other than investments and assets limited as to use, approximate fair value. See Note 7, *Fair Value of Assets and Liabilities*, for a discussion of the fair value of investments and assets limited as to use.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)****Cash and Equivalents**

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations.

**Net Patient Accounts Receivable and Net Patient Services Revenues**

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage, and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility. The provision for bad debts is presented in the consolidated statement of operations as a deduction from patient services revenues (net of contractual allowances and discounts) since CHI accepts and treats all patients without regard to the ability to pay.

During fiscal year 2016, CHI added approximately \$93.3 million in net patient and other accounts receivable due to the acquisition of various new subsidiaries – see Note 4, *Acquisitions, Affiliations and Divestitures*.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

Details of CHI's allowance activity is as follows (in thousands):

	Reserve for Contractual Allowance	Allowance for Bad Debts	Reserve for Charity	Total Accounts Receivable Allowances
Balance at July 1, 2015	\$ (3,712,688)	\$ (903,127)	\$ (304,135)	\$ (4,919,950)
Additions	(34,452,201)	(841,532)	(893,974)	(36,187,707)
Reductions	34,188,433	776,511	1,019,938	35,984,882
Balance at June 30, 2016	(3,976,456)	(968,148)	(178,171)	(5,122,775)
Additions	(36,770,178)	(885,018)	(1,078,658)	(38,733,854)
Reductions	37,061,610	829,067	1,026,052	38,916,729
Balance at June 30, 2017	<u>\$ (3,685,024)</u>	<u>\$ (1,024,099)</u>	<u>\$ (230,777)</u>	<u>\$ (4,939,900)</u>

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates, and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

**Investments and Assets Limited as to Use**

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

CHI has designated its investment portfolio as trading as the portfolio is actively managed to achieve investment returns. Accordingly, unrealized gains and losses on marketable securities are reported within excess (deficit) of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess (deficit) of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

**Inventories**

Inventories, primarily consisting of pharmacy drugs, and medical and surgical supplies, are stated at lower of cost (first-in, first-out method) or market.

**Assets and Liabilities Held for Sale**

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale if it meets certain criteria. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon firm offers, discounted cash flows and incremental direct costs to transact a sale (Level 2 and Level 3 inputs).

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)****Property and Equipment**

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 5 to 84 years, equipment over 3 to 30 years, and land improvements over 2 to 25 years. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment.

Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of \$12.9 million and \$17.5 million was recorded in the years ended June 30, 2017 and 2016, respectively.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 2 and 15 years, with amortization beginning when the project is completed and the software is placed in service.

**Investments in Unconsolidated Organizations**

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The income or loss on the equity method investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

**Intangible Assets and Goodwill**

Intangible assets are comprised primarily of trade names, which are amortized over the estimated useful lives ranging from 10 to 25 years using the straight-line method. The weighted average useful life of the trade names is 16 years. Amortization expense of \$12.6 million and \$12.8 million was recorded in the years ended June 30, 2017 and 2016, respectively.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist; no such circumstances were identified at June 30, 2017, with the exception of the Houston MBO discussed below. Impairment testing of goodwill is done at the reporting unit level by comparing the fair value of the reporting unit's net assets against the carrying value of the reporting unit's net assets, including goodwill. Each MBO is defined as a reporting unit for purposes of impairment testing. The fair value of the reporting unit's net assets is generally estimated based on quantitative analysis of discounted cash flows (Level 3 measurement). The fair value of goodwill is determined by assigning fair values to assets and liabilities, with the remaining fair value reported as the implied fair value of goodwill.

Effective in November 2016 and January 2017, the Houston MBO acquired various physician and diagnostic operations in Texas, which resulted in the recognition of \$43.9 million of total goodwill, calculated as the difference between the consideration paid and the fair value of assets acquired and liabilities assumed. Based upon the Houston MBO's quantitative goodwill analysis performed as of June 30, 2016, which resulted in the impairment of the Houston MBO's goodwill balances, CHI performed a goodwill impairment review of the Houston MBO as of December 31, 2016 and March 31, 2017. The goodwill impairment reviews indicated that the fair value of the Houston MBO's net assets remained below its carrying value. As a result, CHI determined that the \$43.9 million of goodwill acquired during fiscal year 2017 was impaired, and impairment charges were recorded in the consolidated statement of operations for fiscal year 2017.

As of June 30, 2016, CHI revised the Houston MBO's projected cash flows due to operating results in the fourth quarter of fiscal year 2016 being below historical run rates. As a result of this update, CHI determined that \$111.2 million of goodwill attributable to the Houston MBO operations was impaired. The impairment charge is reflected in the consolidated statement of operations for fiscal year 2016.

As a result of its impairment testing during the third quarter of fiscal year 2016, CHI determined that \$16.8 million of goodwill attributable to the discontinued operations of QualChoice Health was impaired. The impairment charge is reflected in net loss from discontinued operations within the consolidated statements of changes in net assets for fiscal year 2016.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 1. Summary of Significant Accounting Policies (continued)

The changes in the carrying amount of goodwill and intangibles is as follows (in thousands):

	2017	2016
Intangible assets, beginning of year	\$ 251,776	\$ 238,491
Current year acquisitions	4,783	13,285
Sale and other adjustments	(20,525)	—
Intangible assets, end of year	236,034	251,776
Accumulated amortization, beginning of year	(50,680)	(38,140)
Intangible amortization expense	(12,581)	(12,783)
Sale and other adjustments	15,891	243
Accumulated amortization, end of year	(47,370)	(50,680)
Intangible assets, net	188,664	201,096
Goodwill, beginning of year	261,742	350,149
Current year acquisitions	67,567	22,766
Impairments	(44,136)	(111,173)
Goodwill, end of year	285,173	261,742
Total intangible assets and goodwill, net	\$ 473,837	\$ 462,838

## Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, long-term prepaid service contracts, deposits and other long-term assets. Notes receivable from related entities as of June 30, 2016, include balances from Bethesda Hospital, Inc. (Bethesda), the non-CHI joint operating agreement (JOA) partner in the Cincinnati, Ohio JOA. As of June 30, 2016, Bethesda was a Designated Affiliate in the CHI credit group under the Capital Obligation Document (COD). In February 2017, Bethesda repaid its notes receivable balance of \$139.7 million payable to CHI and is no longer considered a Designated Affiliate in the CHI credit group under the COD.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2017	2016
Notes receivable:		
From related entities	\$ 135	\$ 148,289
Other	25,483	36,384
Long-term pledge receivables	37,911	36,324
Reinsurance recoverable on unpaid losses and loss adjustment expense	29,089	32,226
Deferred compensation assets	58,558	76,679
Other long-term assets	87,412	116,620
Total notes receivable and other	<u>\$ 238,588</u>	<u>\$ 446,522</u>

**Net Assets**

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care, and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess (deficit) of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)****Performance Indicator**

The performance indicator is the excess (deficit) of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, contributions of property and equipment, and other changes not required to be included within the performance indicator under U.S. generally accepted accounting principles (U.S. GAAP).

**Operating and Nonoperating Activities**

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, gains/losses from extinguishment of debt, net interest cost and changes in fair value of interest rate swaps, and the nonoperating component of JOA income share adjustments. Any infrequent and nonreciprocal contribution that CHI makes to enter a new market community or to expand upon existing affiliations is also classified as nonoperating.

**Charity Care**

As an integral part of its mission, CHI accepts and provides medically necessary health care to all patients without regard to the patient's financial ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. CHI determines the cost of charity care on the basis of an MBO's total cost as a percentage of total charges applied to the charges incurred by patients qualifying for charity care under CHI's policy. This amount is not included in net patient services revenue in the accompanying consolidated statements of operations and changes in net assets. The estimated cost of charity care provided was \$251.6 million and \$204.9 million in 2017 and 2016, respectively, for continuing operations, and \$15.9 million and \$8.0 million in 2017 and 2016, respectively, for discontinued operations.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)****Other Operating Revenues**

Other operating revenues include services sold to external health care providers, gains on acquisitions of subsidiaries, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, electronic health records incentive payments, gains and losses on asset disposals, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, premium revenues, and revenues from other miscellaneous sources.

**Derivative and Hedging Instruments**

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

**Functional Expenses**

CHI provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of CHI. Support services expenses as a percentage of total operating expenses were approximately 6.2% and 6.0% in 2017 and 2016, respectively.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 1. Summary of Significant Accounting Policies (continued)

## Restructuring, Impairment, and Other Losses

Restructuring, impairment, and other losses include charges relating to changes in business operations, severance costs, EPIC go-live support costs and goodwill impairments, acquisition-related costs, and pension settlement activity. Changes in business operations include costs incurred periodically to implement reorganization efforts within specific operations, in order to align CHI's operations in the most strategic and cost-effective manner. Details of CHI's restructuring, impairment and other losses is as follows (in thousands):

	2017	2016
Impairment charges	\$ 48,356	\$ 111,188
Changes in business operations	207,539	115,809
Severance costs	78,594	40,708
Pension settlement costs	39,678	25,053
Total from continuing operations	374,167	292,758
Discontinued operations	14,540	28,253
Total restructuring, impairment and other losses	\$ 388,707	\$ 321,011

Noncash impairment charges, changes in business operations and pension settlement costs from continuing operations included in the consolidated statements of operations totaled \$150.1 million and \$169.0 million for the fiscal years ended June 30, 2017 and 2016, respectively. Discontinued operations are reported in the consolidated statements of changes in net assets.

## Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax. As of June 30, 2017, CHI has a deferred tax asset of \$100.4 million related to net operating loss (NOL) carryforwards. CHI believes that most of the NOL carryforwards will expire unused and has established a valuation allowance of \$95.7 million against the deferred tax asset associated with these NOL carryforwards.



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

**New Accounting Pronouncements**

**Revenue Recognition** – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. CHI is evaluating the guidance in ASU 2014-09 and the impact that the adoption of this update will have on its consolidated financial statements.

**Cloud Computing Arrangements** – In April 2015, the FASB issued ASU No. 2015-05, *Intangibles-Goodwill and Other – Internal-Use Software (Subtopics 340-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments in this update apply only to internal-use software that a customer obtains access to in a hosting arrangement if certain criteria are met. ASU 2015-05 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2015-05 did not have a material effect on CHI's consolidated financial statements.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Leases** – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to require a lessee to recognize a right-of-use asset and a lease liability for both operating and finance leases, whereas previous U.S. GAAP required the asset and liability be recognized only for capital leases. The amendment also requires qualitative and specific quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. CHI is evaluating the guidance of ASU 2016-02 and the impact that the adoption of this update will have on its consolidated financial statements.

**Presentation of Financial Statements of Not-for-Profit Entities** – In August 2016, the FASB issued ASU No. 2016-14, *Not-for Profit Entities (Topic 958)*, to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements, and presents information in the financial statements and notes about the NFP's liquidity, financial performance and cash flows. The amendment changes the way an NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about the nature, amounts and effects of the various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

**Classification of Certain Cash Receipts and Cash Payments** – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation and classification of eight specific cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investees, and separately identifiable cash flows and application of the predominance principle. The objective of the amendment is to reduce the existing diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 1. Summary of Significant Accounting Policies (continued)

**Restricted Cash** – In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted.

**Simplifying the Test for Goodwill Impairment** – In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350)*, to provide guidance on simplifying how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. Instead, the entity will record a goodwill impairment loss based on the excess of the reporting unit's carrying amount of goodwill over its fair value, which is based on the current Step 1. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and CHI has elected early adoption of this amendment.

**Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost** – In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*, to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in this update require that an employer disaggregate the service cost component and the other components of net benefit cost, and that the service cost component be reflected in the same line item as other employee compensation costs. The other components of net benefit cost would be reported as nonoperating gains (losses) on the consolidated statement of operations. ASU 2017-07 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted.

**Reclassifications**

Certain reclassifications were made to the fiscal year 2016 consolidated financial statement presentation to conform to the 2017 presentation – supply costs not related to direct patient care in the amount of \$125.9 million for the year ended June 30, 2017, were reclassified from supplies expenses to other expenses on the consolidated statements of operations.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**2. Community Benefit (Unaudited)**

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This type of community benefit includes the costs of services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the cost of community benefit provided to both the poor and the broader community is as follows (in thousands):

	2017	2016
Cost of community benefit:		
Cost of charity care provided	\$ 251,634	\$ 204,927
Unpaid cost of public programs, Medicaid and other indigent care programs	605,930	523,348
Nonbilled services	29,355	34,700
Cash and in-kind donations	19,559	28,974
Education research	123,883	115,410
Other benefit	109,463	117,802
Total cost of community benefit from continuing operations	1,139,824	1,025,161
Total cost of community benefit from discontinued operations	75,929	72,913
Total cost of community benefit	1,215,753	1,098,074
Unpaid cost of Medicare from continuing operations	911,572	956,725
Total cost of community benefit and the unpaid cost of Medicare	\$ 2,127,325	\$ 2,054,799

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**2. Community Benefit (Unaudited) (continued)**

The summary above has been prepared in accordance with the Catholic Health Association of the United States (CHA) publication, *A Guide for Planning & Reporting Community Benefit*. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost. During fiscal years 2017 and 2016, CHI received \$20.9 million and \$29.5 million, respectively, in funds used to subsidize charity care provided.

The total cost of community benefit from continuing and discontinued operations was 7.0% and 6.5% of total operating expenses before restructuring, impairment and other losses in fiscal years 2017 and 2016, respectively. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 12.3% and 12.2% of total operating expenses before restructuring, impairment and other losses in 2017 and 2016, respectively.

**3. Joint Operating Agreements and Investments in Unconsolidated Organizations****Joint Operating Agreements**

CHI participates in JOAs with hospital-based organizations in three separate market areas. The agreements generally provide for, among other things, joint management of the combined operations of the local facilities included in the JOAs through Joint Operating Companies (JOC). CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

As of June 30, 2017 and 2016, CHI has investment interests of 65%, 50%, and 50% in JOCs based in Colorado, Iowa, and Ohio, respectively. CHI's interests in the JOCs are included in investments in unconsolidated organizations and totaled \$381.7 million and \$351.9 million at June 30, 2017 and 2016, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**3. Joint Operating Agreements and Investments in Unconsolidated Organizations  
(continued)**

In March 2016, CHI amended the existing Iowa JOA to among other items, allow for the Iowa JOC to acquire health care systems in Iowa and contiguous markets, which would be owned equally between CHI and the existing JOC partner. In May 2016, the Iowa JOC acquired Wheaton Franciscan Healthcare and recorded a business combination gain on the acquisition. As a result, CHI recognized \$89.1 million of its proportionate share of the gain, which is reflected in the consolidated statements of operations as changes in equity of unconsolidated organizations for the year ended June 30, 2016.

**Investments in Unconsolidated Organizations**

CHI holds noncontrolling interests in various organizations, accounted for under the cost or equity method of accounting, as appropriate. Significant investments are described below.

**Conifer Health Solutions (Conifer)** – As of June 30, 2017 and 2016, CHI holds a 23.8% equity method investment in Conifer totaling \$614.0 million and \$570.7 million, respectively. The investment in Conifer was acquired as part of a multi-year agreement with Conifer where Conifer provides revenue cycle services and health information management solutions for CHI acute care operations. Since CHI was granted incremental shares in Conifer in conjunction with the multi-year agreement with Conifer, CHI also has a deferred income balance related to the Conifer agreement of \$431.1 million and \$458.9 million, as of June 30, 2017 and 2016, respectively, reported in other liabilities on the accompanying consolidated balance sheets. The deferred income balances are being amortized straight line over the remaining agreement term expiring in January 2033, offsetting revenue cycle services fees paid to Conifer, which are reported in purchased services expense in the accompanying consolidated statements of operations.

As a result of CHI recording its incremental equity ownership in Conifer at fair value, the carrying value of its equity method investment in Conifer was \$253.3 million and \$261.8 million greater than CHI's equity interest in the underlying net assets of Conifer as of June 30, 2017 and 2016, respectively, due to basis differences in the carrying amounts of the tangible and intangible assets of \$186.6 million and \$195.1 million, respectively, and of goodwill of \$66.7 million in both periods. Goodwill is not amortized but is subject to annual impairment tests during the third quarter of the fiscal year, as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. No impairment of goodwill was identified as of June 30, 2017 and 2016. The basis differences of the tangible and intangible assets are being amortized over the average useful lives of the underlying assets, ranging from 8 to 25 years, as a reduction of CHI's equity earnings in Conifer.



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

3. Joint Operating Agreements and Investments in Unconsolidated Organizations  
(continued)

**Other Entities** – The summarized financial positions and results of operations for the other entities accounted for under the equity method of accounting as of and for the periods ended June 30, excluding the investments described above, are as follows (in thousands):

2017								
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Hospital- Based Services	ACO/ CCO/ CIN	Other Investees	Total
Total assets	\$ 17,345	\$ 90,399	\$ 87,958	\$ 13,469	\$ 185,356	\$ 107,722	\$ 256,017	\$ 758,266
Total debt	170	5,976	21,996	2	17,343	31,063	87,992	164,542
Net assets	17,233	75,284	61,527	9,658	150,231	76,659	142,455	533,047
Net patient services revenues	—	84,779	119,056	7,332	177,431	—	193,722	582,320
Total revenues, net	3,577	137,557	130,356	7,332	177,889	180,436	272,215	909,362
Excess (deficit) of revenues over expenses	3,157	23,789	35,460	(1,747)	32,968	1,723	20,610	115,960

2016								
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Hospital- Based Services	ACO/ CCO/ CIN	Other Investees	Total
Total assets	\$ 8,416	\$ 325,839	\$ 61,443	\$ 8,621	\$ 176,015	\$ 128,069	\$ 176,054	\$ 884,457
Total debt	1,241	50,495	14,028	1	18,775	—	59,848	144,388
Net assets	6,013	220,849	31,488	8,197	143,318	78,961	104,998	593,824
Net patient services revenues	—	312,518	98,850	6,271	138,390	—	116,540	672,569
Total revenues, net	1,889	419,513	100,251	6,628	138,657	179,066	161,319	1,007,323
Excess of revenues over expenses	10,012	41,496	30,364	105	33,155	7,091	6,399	128,622

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**4. Acquisitions, Affiliations, and Divestitures**

The following table is a summary of significant business combinations and affiliations that occurred in fiscal year 2017 (in thousands):

Purchase consideration:	
Cash	\$ 64,432
Current liabilities	723
Debt	27,755
	<u>\$ 92,910</u>
Purchase price allocation:	
Inventory	\$ 3,041
Property and equipment	39,681
Intangible assets	4,343
Goodwill	50,702
Current liabilities	(752)
Debt	(4,105)
	<u>\$ 92,910</u>

During fiscal year 2017, CHI entered into various business combinations and affiliations, including the acquisition by a subsidiary of CHI of the operations of a multi-specialty group in the state of Texas. The operations include a general acute care hospital and emergency room, an ambulatory surgery center, a management company, and an independent physician association comprising of more than 80 health care providers. For the fiscal year ended June 30, 2017, the affiliations and acquisitions reported a combined \$52.0 million in operating revenues and \$(17.5) million in deficit of revenues over expenses in the CHI consolidated results of operations.



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 4. Acquisitions, Affiliations and Divestitures (continued)

The following table is a summary of significant business combinations and affiliations that occurred in fiscal year 2016 (in thousands):

	Trinity	Brazosport	LUH	Other	Total
Purchase consideration:					
Cash	\$ —	\$ —	\$ —	\$ 17,225	\$ 17,225
Noncontrolling interest	—	—	—	9,275	9,275
Business combination gains	72,717	21,293	111,551	17,475	223,036
	72,717	21,293	111,551	43,975	249,536
Equity interest in Trinity	72,392	—	—	—	72,392
	\$ 145,109	\$ 21,293	\$ 111,551	\$ 43,975	\$ 321,928

	Trinity	Brazosport	LUH	Other	Total
Purchase price allocation:					
Cash and investments	\$ 133,349	\$ 18,650	\$ 70,416	\$ 5,420	\$ 227,835
Patient and other A/R	40,363	22,191	25,346	5,443	93,343
Other current assets	6,373	3,200	9,775	786	20,134
Property and equipment	57,598	36,292	111,609	16,970	222,469
Intangible assets	210	—	—	1,200	1,410
Goodwill	—	—	—	18,648	18,648
Other assets	8,962	144	13,276	—	22,382
Current liabilities	(26,246)	(18,777)	(17,455)	(2,994)	(65,472)
Pension liability	(16,408)	—	—	—	(16,408)
Other liabilities	(9,818)	(671)	—	—	(10,489)
Debt	(40,069)	(38,450)	(97,765)	(1,437)	(177,721)
Restricted net assets	(9,205)	(1,286)	(3,651)	(61)	(14,203)
	\$ 145,109	\$ 21,293	\$ 111,551	\$ 43,975	\$ 321,928

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**4. Acquisitions, Affiliations, and Divestitures (continued)**

**Trinity Health System** – Effective February 1, 2016, CHI became the sole owner of Trinity Health System (Trinity) based in Steubenville, Ohio, when it acquired the remaining 50% ownership in Trinity. The other 50% ownership in Trinity was held by Sylvania Franciscan Health (Sylvania), which CHI acquired in November 2014; the remeasurement of Sylvania's investment in Trinity resulted in an immaterial gain on Sylvania's 50% equity ownership. Trinity owns and operates Trinity Medical Center East, Trinity Medical Center West, Tony Teramana Cancer Center, and numerous outpatient clinics located in eastern Ohio. The transaction resulted in the recognition of a \$72.7 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, Trinity reported \$237.6 million and \$103.7 million in operating revenues, respectively, and \$27.8 million and \$13.0 million of excess of revenues over expenses, respectively, to the CHI consolidated results of operations for the fiscal year ended June 30, 2017 and for the period February 1, 2016 through June 30, 2016, respectively.

**Brazosport Regional Health System** – Effective February 1, 2016, a consolidated subsidiary of CHI signed an affiliation agreement with Brazosport Regional Health System (Brazosport) in Lake Jackson, Texas, to become part of CHI. Brazosport is a nonprofit health care organization that includes a 158-bed hospital that operates the only Level III trauma center in Brazoria County. The transaction resulted in the recognition of a \$21.3 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, Brazosport reported \$78.7 million and \$33.7 million in operating revenues, respectively, and \$(10.7) million and \$(1.3) million of deficit of revenues over expenses, respectively, to the CHI consolidated results of operations for the fiscal year ended June 30, 2017 and for the period from February 1, 2016 through June 30, 2016, respectively.

**Longmont United Hospital** – Effective August 1, 2015, a direct affiliate of CHI entered into a Joint Operating and Management Agreement with Longmont United Hospital (LUH) to become the sole and exclusive agent to manage and operate the LUH business for a period of 99 years. The transaction resulted in the recognition of a \$111.6 million gain calculated as the fair value of identifiable assets acquired and liabilities assumed, determined based upon Level 3 inputs, including estimated future cash flows and probability-weighted performance assumptions. Excluding the business combination gain, LUH reported \$183.0 million and \$160.9 million in operating revenues, respectively, and \$(12.5) million and \$(8.6) million of deficit of revenues over expenses, respectively, to the CHI consolidated results of operations for the fiscal year ended June 30, 2017 and for the period from August 1, 2015 through June 30, 2016, respectively.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 4. Acquisitions, Affiliations, and Divestitures (continued)

Had CHI owned the above acquired entities as of the beginning of each fiscal year, CHI's unaudited pro forma results, excluding business combination gains, for the years ended June 30 would have been as presented below (in thousands):

	2017 Pro Forma Total CHI	2016 Pro Forma Total CHI
Operating revenues	\$ 15,583,123	\$ 15,312,149
Operating loss before restructuring	(208,473)	(294,984)
Excess (deficit) of revenues over expenses	130,997	(800,823)

Unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transaction actually occurred on those dates, nor of future results.

## Other Affiliations

**Pathology Associates Medical Laboratories, LLC (PAML)** – Effective in May 2017, CHI sold all of its interests in PAML to Laboratory Corporation of America Holdings (LabCorp). As part of the agreement, LabCorp will also acquire CHI's direct and indirect interests in three CHI joint ventures with PAML in the states of Colorado, Kentucky and Washington. Nonrefundable gross sales proceeds attributable to CHI and its affiliates of \$96.7 million were received in May 2017, resulting in a gain on sale of \$40.2 million reflected in other operating revenues in the consolidated statements of operations.

**KentuckyOne/UMC JOA dissolution** – In December 2016, KentuckyOne Health, a subsidiary of CHI, and University Medical Center (UMC) agreed to restructure their existing JOA, originally entered into in March 2013, which had given KentuckyOne Health control over substantially all of UMC's operations, including University of Louisville Hospital and the James Graham Brown Cancer Center. Among the various capital investment and funding aspects of the new agreement, the new agreement also called for UMC to take over the management of UMC operations effective on July 1, 2017, at which time CHI ceased consolidating the operations of UMC.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**4. Acquisitions, Affiliations, and Divestitures (continued)**

For the fiscal years ended June 30, 2017 and 2016, UMC reported total operating revenues of \$515.2 million and \$528.7 million, respectively, and excess of revenues over expenses of \$18.1 million and \$43.8 million, respectively. The CHI consolidated balance sheets also included UMC total assets of \$605.5 million and \$516.9 million as of June 30, 2017 and 2016, respectively. Upon deconsolidation of UMC on July 1, 2017, CHI incurred a loss of approximately \$318.0 million.

**Dignity Health** – On October 24, 2016, CHI and Dignity Health signed a nonbinding letter of intent to explore aligning their organizations and expanding their mission of service in communities across the nation. The potential alignment would strengthen CHI and Dignity Health's leadership role in transforming health care through increased patient access and enhanced clinical excellence. The boards and sponsors of the two health systems are continuing to evaluate the potential alignment and are in the final stages of the due diligence process. CHI can give no assurance that the transaction will occur.

**Discontinued Operations**

In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. System (JHSMH). CHI will begin to market the sale of these operations and anticipates closing on a sale by the end of the calendar year.

In May 2016, CHI approved a plan to sell or otherwise dispose of certain entities of QualChoice Health, Inc. (QualChoice Health), a consolidated CHI subsidiary, whose primary business is to develop, manage and market commercial and Medicare Advantage health insurance programs, as well as a wide range of products and administrative services. A letter of intent for the Medicare Advantage health insurance operations has been received, with an anticipated sale in fiscal year 2018. Although there has been significant interest in the QualChoice Health commercial operations, the uncertainty surrounding the Affordable Care Act and current political environment has delayed the anticipated sale of this operation to a timeline outside of CHI's control. CHI remains committed to selling or otherwise disposing of the QualChoice Health commercial operations and continues to actively market these operations.

The JHSMH and QualChoice Health operations are reflected as discontinued operations and held for sale as of June 30, 2017 and 2016, in accordance with ASU No. 2014-08, *Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity*, as the operations held for sale are deemed to represent a strategic shift in CHI's operations, which will have a major effect on its financial results.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**4. Acquisitions, Affiliations, and Divestitures (continued)**

Effective in fiscal year 2016, CHI sold the operations of the Reading, Pennsylvania MBO and the Denville, New Jersey MBO, for total gross proceeds of \$206.0 million. The Denville MBO sale included \$20.9 million of working capital settlements; as of June 30, 2016, CHI had received \$62.0 million for the sale of the hospital operations of the Denville MBO plus \$16.0 million in estimated working capital settlements net of closing costs. The Reading and Denville MBOs are reflected as discontinued operations in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*.

The results of operations of Louisville, QualChoice Health, and the Reading and Denville MBOs are reported in the consolidated statements of changes in net assets as discontinued operations.

A reconciliation of major classes of assets and liabilities of the discontinued operations is presented below as of June 30 (in thousands):

	2017	2016
Other accounts receivable	\$ 31,204	\$ 75,769
Investments held for insurance purposes	132,519	116,950
Property and equipment, net	380,495	430,556
Other assets	35,725	35,165
Total major classes of assets of the discontinued operations	579,943	658,440
Other assets classified as held for sale	2,401	6,988
Total assets classified as held for sale	\$ 582,344	\$ 665,428
Compensation and benefits	\$ 48,530	\$ 54,775
Accounts payable and accrued expenses	44,898	34,214
Debt	10,258	11,621
Self-insured reserves	62,049	74,629
Total major classes of liabilities of the discontinued operations classified as held for sale	\$ 165,735	\$ 175,239

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**4. Acquisitions, Affiliations, and Divestitures (continued)**

The \$2.4 million and \$7.0 million of other assets classified as held for sale as of June 30, 2017 and 2016, respectively, represent real estate assets which are scheduled to be sold in fiscal year 2018, measured at the lower of their carrying amount or fair value less cost to sell.

Operating results of discontinued operations are reported in the accompanying consolidated statements of changes in net assets and are summarized as follows for the years ended June 30 (in thousands):

	2017	2016
Net patient service revenues	\$ 763,007	\$ 827,096
Insurance premium revenues	573,811	516,844
Gain on sale	751	73,711
Other revenues	26,441	84,090
Total operating revenues	<u>1,364,010</u>	<u>1,501,741</u>
Salaries, wages, and employee benefits	(491,504)	(584,955)
Medical claims	(526,683)	(482,402)
Depreciation	(42,931)	(49,870)
Other expenses	(439,656)	(502,364)
Total operating expenses before restructuring, impairment and other losses	<u>(1,500,774)</u>	<u>(1,619,591)</u>
Loss from operations before restructuring, impairment and other losses	(136,764)	(117,850)
Restructuring, impairment, and other losses	(14,540)	(28,253)
Loss from operations	<u>(151,304)</u>	<u>(146,103)</u>
Nonoperating losses	(1,584)	(8,422)
Deficit of revenues over expenses	<u>\$ (152,888)</u>	<u>\$ (154,525)</u>

Total operating revenues in fiscal year 2016 include a gain of \$59.6 million on the sale of the Denville MBO's long-term care operations in May 2016.

The discontinued operations reported \$23.0 million and \$48.0 million in capital expenditures for fiscal years 2017 and 2016, respectively.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**5. Net Patient Services Revenues**

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs, and from patients themselves. A summary of payment arrangements with major third-party payors follows:

**Medicare** – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

**Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

**Other** – CHI has also entered into payment agreements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHI under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are summarized as follows:

	2017	2016
Medicare	36%	32%
Medicaid	13	13
Managed care	38	38
Self-pay	3	4
Commercial and other	10	13
	<u>100%</u>	<u>100%</u>

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 5. Net Patient Services Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of \$86.1 million and \$112.1 million at June 30, 2017 and 2016, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by \$78.2 million and \$94.6 million in fiscal year 2017 and 2016, respectively, due to favorable changes in estimates related to prior-year settlements.

## 6. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use as of June 30 are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	2017	2016
Cash and equivalents	\$ 150,960	\$ 185,325
CHI Investment Program	5,730,972	5,266,787
Marketable equity securities	274,948	342,327
Marketable fixed-income securities	664,433	802,382
Hedge funds and other investments	30,319	24,360
	<u>6,851,632</u>	<u>6,621,181</u>
	(65,161)	(63,146)
Less current portion	<u>\$ 6,786,471</u>	<u>\$ 6,558,035</u>

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held directly by CHI and by the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**6. Investments and Assets Limited as to Use (continued)**

is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the accompanying consolidated financial statements is a reasonable estimate of fair value.

The majority of all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a simple-majority vote of the noncontrolling limited partners to terminate the partnership. Accordingly, CHI recognizes only the unitized portion of Program assets attributable to CHI and its direct affiliates. Program assets attributable to CHI and its Direct Affiliates represented 89% of total Program assets at June 30, 2017 and 2016, respectively.

The Program asset allocation at June 30 is as follows:

	2017	2016
Equity securities	41%	44%
Fixed-income securities	39	32
Alternative investments	19	23
Cash and equivalents	1	1
	<u>100%</u>	<u>100%</u>

The CHI Finance Committee (the Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity, and alternative investments. At least annually, the Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**6. Investments and Assets Limited as to Use (continued)**

The Program allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2017, the Program had committed to invest \$815.0 million in 41 funds, of which \$698.6 million had been invested. The remaining \$116.4 million will be invested when, and if, requested by the funds. Alternative investments within the Program have limited liquidity. As of June 30, 2017, illiquid investments not available for redemption totaled \$378.9 million, and investments available for redemption within 180 days at the request of the Program totaled \$813.2 million.

Investment gains (losses) are comprised of the following for the years ended June 30 (in thousands):

	2017	2016
Dividend and interest income	\$ 146,582	\$ 149,800
Net realized gains	338,400	149,802
Net unrealized gains (losses)	153,537	(302,986)
Total investment gains (losses) from continuing operations	638,519	(3,384)
Total investment losses from discontinued operations	(1,584)	(8,422)
Total investment gains (losses)	\$ 636,935	\$ (11,806)

Direct expenses of the Program are less than 0.3% of total assets. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**7. Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLC) and limited liability partnerships (LLP). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Program under the equity method. As such, these investments are excluded from the scope of ASC 820.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 7. Fair Value of Assets and Liabilities (continued)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the market approach based upon the following inputs at June 30 (in thousands):

		2017			
		Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)	
Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs		
<b>Assets</b>					
Assets limited as to use:					
Cash and short-term investments	\$ 150,960	\$ 130,400	\$ 20,560	\$	—
Equity securities	274,948	274,948	—		—
Fixed-income securities	664,433	170,425	494,008		—
Other investments	3,523	—	—		3,523
Deferred compensation assets:					
Cash and short-term investments	6,708	6,708	—		—
	\$ 1,100,572	\$ 582,481	\$ 514,568	\$	3,523
<b>Liabilities</b>					
Interest rate swaps	\$ 287,990	\$ —	\$ 287,990	\$	—
Contingent consideration	177,189	—	—		177,189
Deferred compensation liability	6,708	6,708	—		—
	\$ 471,887	\$ 6,708	\$ 287,990	\$	177,189

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 7. Fair Value of Assets and Liabilities (continued)

		2016			
		Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)	
Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs		
<b>Assets</b>					
Assets limited as to use:					
Cash and short-term investments	\$ 185,325	\$ 183,641	\$ 1,684	\$	—
Equity securities	342,327	342,327	—		—
Fixed-income securities	802,382	143,263	659,119		—
Other investments	428	—	—		428
Deferred compensation assets:					
Cash and short-term investments	8,248	8,248	—		—
	\$ 1,338,710	\$ 677,479	\$ 660,803	\$	428
<b>Liabilities</b>					
Interest rate swaps	\$ 416,277	\$ —	\$ 416,277	\$	—
Contingent consideration	207,204	—	—		207,204
Deferred compensation liability	8,248	8,248	—		—
	\$ 631,729	\$ 8,248	\$ 416,277	\$	207,204

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 instruments include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 instruments include corporate fixed-income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**7. Fair Value of Assets and Liabilities (continued)**

investments. Information on which these securities' fair values are based is generally not readily available in the market. The fair value of the contingent consideration liability was determined based on estimated future cash flows and probability-weighted performance assumptions, discounted to net present value. The contingent consideration liability balance was adjusted to reflect \$37.4 million of payments made since June 30, 2016, and to reflect a \$7.4 million increase for changes in payment assumptions.

**8. Property and Equipment**

A summary of property, equipment, and software is as follows as of June 30 (in thousands):

	2017	2016
Land and improvements	\$ 780,135	\$ 687,279
Buildings and improvements	7,244,245	7,316,817
Equipment	5,691,549	5,486,136
Software	1,113,667	1,008,466
	<u>14,829,596</u>	<u>14,498,698</u>
Less accumulated depreciation and amortization	(7,146,842)	(6,537,012)
	<u>7,682,754</u>	<u>7,961,686</u>
Construction in progress	886,559	1,072,366
	<u>\$ 8,569,313</u>	<u>\$ 9,034,052</u>

CHI incurs a variety of direct and indirect costs to develop internal-use software. In order for software to be considered internal use, it must be acquired, internally developed or modified solely to meet CHI's needs and no plan exists or is being developed to sell the software externally during the software's development or modification. Unamortized software costs as of June 30, 2017 and 2016, were \$746.3 million and \$784.1 million, respectively. For the fiscal years ended June 30, 2017 and 2016, CHI recorded \$137.8 million and \$111.6 million, respectively, related to amortization of internal-use software. Amortization of internal-use software begins when the software is placed in service, and is based on the expected useful life of the software, which is generally between 2 and 10 years.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**8. Property and Equipment (continued)**

During fiscal years 2017 and 2016, CHI sold various real estate assets across the enterprise as part of a long-term effort to improve the mix of owned and leased assets. In conjunction with the sale, CHI entered into 10-year operating lease agreements with the buyers, and in accordance with ASC 840-40, *Leases – Sale-Lease Back Transactions*, certain of the gains on the sale of the real estate assets were deferred and will be amortized to lease expense over the life of the operating leases.

In fiscal years 2017 and 2016, real estate assets with a net book value of \$281.8 million and \$332.3 million, respectively, were sold for gross proceeds of \$366.5 million and \$601.7 million, respectively. As a result of the sales, CHI recognized \$22.0 million and \$59.4 million gains on sales, reflected in other operating revenues in the consolidated statements of operations for the years ended June 30, 2017 and 2016, respectively. CHI also recorded short-term deferred gains of \$5.8 million and \$20.1 million, respectively, and long-term deferred gains of \$52.2 million and \$180.6 million, respectively, for fiscal year 2017 and fiscal year 2016. On the consolidated balance sheets, the short-term deferred gains are a component of accrued expenses, and the long-term deferred gains are a component of other long-term liabilities.

CHI also sold various other assets during fiscal year 2017 for net proceeds of \$101.7 million reflected within other operating revenues as gain on sale on the consolidated statement of operations for the year ended June 30, 2017.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 9. Debt Obligations

The following is a summary of debt obligations as of June 30 (in thousands):

	Maturity Date	Interest Rates at June 30, 2017	2017	2016
<b>Debt secured under the CHI COD</b>				
Variable-rate bonds:				
CHI Series 2004B	2044	1.97%	\$ 54,200	\$ 54,200
CHI Series 2004C	2039	1.25–1.32	96,700	96,700
CHI Series 2008A	2037	1.72	119,450	120,175
CHI Series 2008C	2040	1.96	52,990	52,990
CHI Series 2011B	2046	2.31	158,155	158,155
CHI Series 2011C	2046	1.80	118,000	118,000
CHI Series 2013B	2035	1.91–2.31	200,000	200,000
CHI Series 2013C	2046	2.49	100,000	100,000
CHI Series 2013E Taxable	2046	2.55	125,000	125,000
CHI Series 2013F Taxable	2046	2.42	75,000	75,000
CHI Series 2015-1	2032	1.61	36,700	38,400
CHI Series 2015-2	2027	1.61	63,472	73,700
CHI Series 2015A	2032	1.71–1.79	66,100	69,500
CHI Series 2015B	2042	1.71	27,270	50,000
CHI Series 2016 Taxable	2021	3.80	200,000	—
Commons of Providence Series 2009B	2034	2.71	5,860	—
Providence Care Center Series 2009C	2034	2.71	4,160	—
Providence Residential Community Series 2009A	2034	2.71	6,770	—
Fixed-rate bonds:				
CHI Series 2002A	—	—	—	920
CHI Series 2004A	2034	4.75–5.0	123,170	140,985
CHI Series 2006A	2042	4.0–5.0	268,015	270,635
CHI Series 2008D	2039	5.0–6.38	445,220	452,065
CHI Series 2009A	2040	4.0–5.5	573,680	672,050
CHI Series 2009B	2040	1.88–5.25	208,560	217,720
CHI Series 2011A	2041	3.25–5.25	436,470	451,270
CHI Series 2012A	2036	3.5–5.0	199,670	264,170
CHI Series 2012 Taxable	2043	1.6–4.35	1,500,000	1,500,000
CHI Series 2013A	2045	5.0–5.75	600,600	600,600
CHI Series 2013D Taxable	2024	2.6–4.2	540,000	540,000
Madonna Manor Series 2010	2040	7.0	27,510	27,990
St. Clare Commons Series 2012A	2042	3.17	30,945	31,720
St. Joseph Manor Series 1997B	2028	5.38	13,895	13,895
St. Joseph Regional Health Center Series 1993B	2019	6.0	6,010	8,760
St. Joseph Regional Health Center Series 1997A	2028	5.38	36,472	45,017
St. Joseph Regional Health Center Series 2014	2032	2.84	25,255	25,255



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 9. Debt Obligations (continued)

	Maturity Date	Interest Rates at June 30, 2017	2017	2016
<b>Debt secured under the CHI COD (continued)</b>				
Bank line of credit	7/2017	2.17%	\$ 250,000	\$ 250,000
Bank line of credit	—	—	—	200,000
Bank loan	12/2017	2.86	333,741	333,741
Commercial paper	2017	1.49	815,519	815,519
Unamortized debt premium and discount, net			24,842	31,580
Unamortized debt issuance costs			(28,605)	(31,295)
Total debt secured under the CHI COD			7,940,796	8,194,417
<b>Other debt</b>				
St. Leonard Master Trust Indenture	2040	6.0–6.63	40,732	41,892
Note payable issued to Episcopal Health Foundation	2020	4.0	133,560	167,053
Capital leases			168,642	166,150
Other debt			418,680	476,141
Total debt obligations			8,702,410	9,045,653
Less amounts classified as current:				
Variable-rate debt with self-liquidity			(96,700)	(96,700)
Commercial paper and current portion of debt			(2,017,508)	(1,768,028)
Long-term debt			\$ 6,588,202	\$ 7,180,925

The fair value of debt obligations was approximately \$8.8 billion at June 30, 2017. Management has determined the carrying values of the variable-rate bonds are representative of fair values as of June 30, 2017, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations (Level 2 inputs).

A summary of scheduled principal payments, based upon stated maturities, on debt obligations for the next five years is as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2018	\$ 2,114,208
2019	437,239
2020	180,950
2021	126,271
2022	130,410

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**9. Debt Obligations (continued)**

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities. Effective in September 2016, CHI issued obligations under the COD to support the repayment of three series of previously outstanding Providence, Ohio, bonds (the Ohio bonds); the Ohio bonds were classified as other debt as of June 30, 2016, in the table above. There were no modifications to the payment terms or holders of the Ohio bonds.

Debt issued under the St. Leonard Master Trust Indenture is secured by the property of St. Leonard in Centerville, Ohio, and a pledge of gross revenues.

During March 2017, CHI's long-term credit ratings were adjusted to BBB+ with a stable outlook from Standard & Poor's, and to Baa1 with a negative outlook from Moody's. CHI's long-term credit rating from Fitch remains at BBB+ with a negative outlook.

**Debt Redemptions and Reissuances**

In February 2016, CHI redeemed \$300.0 million of Series 2006C fixed-rate bonds. The bond redemption was funded by the issuance of a \$333.7 million bank loan with an original maturity of December 2016, which was subsequently extended to December 2017. The bond redemption resulted in a loss on redemption of \$30.5 million for the year ended June 30, 2016.

In August 2016, CHI redeemed \$62.0 million of Series 2012A fixed-rate bonds in connection with the sale in the prior fiscal year of the underlying real estate assets. The bond redemption was funded from the real estate sale proceeds and resulted in a loss on redemption of \$8.5 million included in losses on extinguishment of debt in the consolidated statement of operations.

In September 2016, CHI redeemed \$37.1 million of bonds that were originally acquired as part of the LUH business combination in fiscal year 2016. The bond redemption was funded by the issuance of \$34.1 million of commercial paper and restricted investments.

In December 2016, CHI issued \$200.0 million of Series 2016 Taxable variable-rate bonds. Proceeds were used to repay the \$200.0 million bank line of credit which matured in December 2016.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**9. Debt Obligations (continued)**

As discussed in Note 1, *Summary of Significant Accounting Policies-Notes Receivable and Other Assets*, in February 2017, Bethesda repaid its notes receivable to CHI for previously loaned funds. CHI used those proceeds in February and March 2017 to redeem \$97.0 million of Series 2004 and Series 2009 fixed-rate bonds, and \$33.0 million of Series 2015 variable-rate bonds. The bond redemption resulted in a loss on redemption of \$7.7 million. Bethesda is no longer a Designated Affiliate in the CHI credit group under the COD.

In May 2017, CHI redeemed \$38.8 million of bonds originally acquired in fiscal year 2016 as part of the Brazosport acquisition. The bond redemption was funded by \$24.4 million of cash, restricted investments, and the issuance of \$14.4 million in commercial paper, resulting in a loss on redemption of \$3.4 million.

**Liquidity Facilities, Credit Facilities, and Other Lines of Credit**

CHI has external liquidity facilities totaling \$365.0 million and \$425.0 million at June 30, 2017 and 2016, respectively, which can be used to support CHI's obligations to fund tenders of variable rate demand bonds (VRDB) and to pay maturing principal of commercial paper.

At both June 30, 2017 and 2016, CHI classified as current \$815.5 million of commercial paper due to maturities of less than one year and \$96.7 million of VRDBs due to the holder's ability to put such VRDBs back to CHI on a daily basis, after providing a seven-day notice to tender.

At both June 30, 2017 and 2016, CHI had a credit facility with a third-party bank totaling \$69.0 million, of which letters of credit totaling \$63.8 million and \$63.9 million, respectively, have been designated for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. No amounts were outstanding under this credit facility at June 30, 2017 and June 30, 2016.

At June 30, 2017 and 2016, CHI had \$250.0 million and \$450.0 million, respectively, of outstanding bank lines of credit which were classified as current due to maturities of less than one year. As previously disclosed, the \$200.0 million line of credit matured in December 2016 and was funded by the issuance of \$200.0 million of Series 2016 Taxable variable-rate bonds. The \$250.0 million line of credit matured in July 2017 and was funded by the issuance of a new \$250.0 million line of credit agreement with a third-party bank which matures in July 2018.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 9. Debt Obligations (continued)

## Interest Rate Swap Agreements

CHI utilizes various interest rate swap contracts to manage the risk of increased interest rates payable of certain variable-rate bonds. The fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate debt. Generally, it is CHI's policy that all counterparties have an AA rating or better. The swap agreements generally require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on CHI's long-term indebtedness.

The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. Cash collateral balances are netted against the fair value of the swaps, and the net amount is reflected in other liabilities in the accompanying consolidated balance sheets. At June 30, 2017 and 2016, the net swap liability reflected in other liabilities was \$28.9 million and \$75.1 million, respectively, net of swap collateral posted of \$259.1 million and \$341.1 million, respectively. The change in the fair value of swap agreements was a net gain (loss) of \$127.9 million and \$(115.4) million for the years ended June 30, 2017 and 2016, respectively, reflected in realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations.

Based upon the swap agreements in place as of June 30, 2017, a reduction in CHI's credit rating to BBB would obligate CHI to post additional cash collateral of \$28.9 million. If CHI's credit rating were to fall below BBB, the swap counterparties would have the option to require CHI to settle the swap liabilities at the recorded fair value, which was \$28.9 million as of June 30, 2017.

Following is a summary of interest rate swap contracts (in thousands):

	Maturity Date	Swap Contracts Outstanding		Fair Value Liability (Asset)		Notional Amount	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Basis swaps	2028	1	1	\$ (374)	\$ (736)	\$ 30,000	\$ 30,000
Fixed-payor swaps	2024-2047	15	16	286,882	415,308	1,411,223	1,452,710
Total return swaps	2017-2020	25	29	1,482	1,705	174,777	223,337
		41	46	\$ 287,990	\$ 416,277	\$ 1,616,000	\$ 1,706,047

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans****CHI Pension Plan**

CHI and its direct affiliates maintain a variety of noncontributory, defined benefit retirement plans (Retirement Plans) for their employees. Certain of these plans were frozen in previous fiscal years, and benefits earned by employees through that time period remain in the Retirement Plans, where employees continue to receive interest credits and vesting credits, if applicable. Benefits in the Retirement Plans are based on compensation, retirement age, and years of service. Substantially all of the Retirement Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of changes in net assets.

During fiscal year 2016, CHI acquired the pension plan assets and liabilities of Trinity (the Acquired plan) which is included below from the date of acquisition.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans (continued)**

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plans at the June 30 measurement dates is as follows (in thousands):

	2017	2016
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 5,431,434	\$ 4,865,377
Service cost	9,340	15,518
Interest cost	152,067	201,192
Actuarial (gain) loss	(146,604)	634,831
Acquired plan	—	64,354
Plan amendments	—	(24)
Curtailments	—	(2,806)
Settlements	(162,860)	(58,111)
Benefits paid	(103,315)	(285,904)
Expenses paid	(1,697)	(2,993)
Benefit obligation, end of year	5,178,365	5,431,434
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	3,895,594	4,132,797
Actual return on the Plans' assets, net of expenses	360,147	68,999
Employer contributions	79,513	19,521
Acquired plan	—	47,946
Transfers	—	(26,746)
Settlements	(162,860)	(58,111)
Benefits paid	(103,315)	(285,819)
Expenses paid	(1,697)	(2,993)
Fair value of the Plans' assets, end of year	4,067,382	3,895,594
Funded status of the Plans	\$ (1,110,983)	\$ (1,535,840)
End-of-year values:		
Projected benefit obligation	\$ 5,178,365	\$ 5,431,434
Accumulated benefit obligation	5,170,046	5,422,498

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 10. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2017, are unrecognized actuarial losses of \$1.3 billion that have not yet been recognized in net periodic pension cost. The actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2017, total \$44.8 million.

The components of net periodic pension expense (income) are as follows (in thousands):

	2017	2016
Components of net periodic pension expense (income):		
Service cost	\$ 9,340	\$ 15,518
Interest cost	152,067	201,192
Expected return on the Plans' assets	(271,545)	(274,718)
Actuarial losses	60,182	38,134
Settlements	40,608	26,157
	<u>\$ (9,348)</u>	<u>\$ 6,283</u>

The service cost, interest cost, expected return on the Plans' assets, actuarial losses, and amortization of prior service benefit components of net periodic pension expense (income) are recognized in the consolidated statements of operations within employee benefits expense. Curtailments and settlements components of net periodic pension expense (income) are recognized in the consolidated statements of operations within restructuring, impairment and other losses.

Effective on July 1, 2017, CHI changed the method used to estimate the service cost and interest cost components of net periodic pension cost to use a full yield curve "spot rate" approach that applies the specific spot rates along the yield curve to the plans' projected cash flows for certain benefit plans that had a remeasurement event during the year, the impact of which was immaterial. Additionally, for 2017 and going forward, CHI has determined that adopting the full yield curve "spot rate" approach for all other plans is preferable because it provides a more direct matching between the individual cash flows and the discount rates applied to those cash flows. As a result of this change in accounting method, service and interest costs decreased by approximately \$34.9 million for the year ended June 30, 2017.

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans (continued)**

Weighted-average assumptions used to determine the pension benefit obligation for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	<b>3.78%</b>	3.53%
Rate of compensation increase	<b>n/a</b>	n/a

The increase in the discount rate to 3.78% at June 30, 2017, decreased the pension benefit obligation by approximately \$146.3 million.

Weighted-average assumptions used to determine the net periodic pension expense (income) for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	<b>3.53%</b>	4.29%
Expected return on Plans' assets	<b>7.20</b>	7.20
Rate of compensation increase	<b>n/a</b>	n/a

CHI expects to contribute \$114.3 million to the Plans in fiscal year 2018. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

	<u>Estimated Payments</u>
Year Ending June 30:	
2018	\$ 331,231
2019	280,908
2020	283,250
2021	286,590
2022	292,003
2023-2027	1,511,296



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans (continued)**

A summary of the Plans' assets at June 30 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Plans' interest in the CHI Master Trust	\$ 3,743,308	\$ 3,610,915
Investments in securities	331,168	319,782
Receivables for securities sold	14,089	2,580
Foreign currency exchange contracts	20,455	49,611
Other receivables	6,497	5,346
Total assets	<u>4,115,517</u>	<u>3,988,234</u>
<b>Liabilities</b>		
Payable for securities purchased	27,324	42,902
Foreign currency exchange contracts	20,541	49,671
Other liabilities	270	67
Total liabilities	<u>48,135</u>	<u>92,640</u>
Total Plans' assets	<u>\$ 4,067,382</u>	<u>\$ 3,895,594</u>

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 10. Retirement Plans (continued)

The Plans' financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

		2017			
		Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)	
		Quoted	Other	Unobservable	
		Prices in Active	Observable	Inputs	
		Markets	Inputs		
		Total			
<b>Assets</b>					
Cash and short-term investments	\$	62,061	\$ 55,925	\$ 6,136	\$ —
Equity securities		44,679	38,796	5,883	—
Fixed-income securities		224,428	47,209	173,068	4,151
Investments in securities		331,168	141,930	185,087	4,151
Foreign currency exchange contracts		20,455	—	20,455	—
Total assets	\$	351,623	\$ 141,930	\$ 205,542	\$ 4,151
<b>Liabilities</b>					
Foreign currency exchange contracts	\$	20,541	\$ —	\$ 20,541	\$ —
Total liabilities	\$	20,541	\$ —	\$ 20,541	\$ —

		2016			
		Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)	
		Quoted	Other	Unobservable	
		Prices in Active	Observable	Inputs	
		Markets	Inputs		
		Total			
<b>Assets</b>					
Cash and short-term investments	\$	34,511	\$ 30,859	\$ 3,652	\$ —
Equity securities		33,288	25,800	7,488	—
Fixed-income securities		251,983	66,549	164,039	21,395
Investments in securities		319,782	123,208	175,179	21,395
Foreign currency exchange contracts		49,611	—	49,611	—
Total assets	\$	369,393	\$ 123,208	\$ 224,790	\$ 21,395
<b>Liabilities</b>					
Foreign currency exchange contracts	\$	49,671	\$ —	\$ 49,671	\$ —
Total liabilities	\$	49,671	\$ —	\$ 49,671	\$ —

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 10. Retirement Plans (continued)

For the years ended June 30, 2017 and 2016, the changes in fair value of the Plans' investments in securities, for which Level 3 inputs were used, are as follows (in thousands):

	<u>Fixed-income Securities</u>
Investments at fair value at July 1, 2015	\$ 22,629
Purchases/contributions of investments	6,429
Sales/distributions of investments	(8,573)
Net change in unrealized appreciation on investments and effect of foreign currency translation	625
Net realized gains on investments	285
Investments at fair value at June 30, 2016	<u>21,395</u>
Purchases/contributions of investments	6,145
Sales/distributions of investments	(22,621)
Net change in unrealized depreciation on investments and effect of foreign currency translation	(172)
Net realized losses on investments	(596)
Investments at fair value at June 30, 2017	<u>\$ 4,151</u>

There were no significant transfers between Levels 1 and 2 during any period presented.

Certain of the Plans' investments are held in the CHI Master Trust, which was established for the investment of assets of the Plans. Each participating plan has an undivided interest in the CHI Master Trust. The CHI Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and plan-specific expenses) that can be specifically identified and by allocating among all plans, in proportion to each plan's beneficial interest in the CHI Master Trust, income and expenses resulting from the collective investment of the assets of the CHI Master Trust.

The CHI Master Trust investment portfolio is designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans (continued)**

CHI Master Trust is to maintain asset allocations close to target, temporary periods may exist where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

A summary of the CHI Master Trust asset allocation targets, ranges by asset class and allocations by asset class within the CHI Master Trust at the measurement dates of June 30 is as follows:

	2017	2016	Target	Range
Equity securities	48.2%	46.0%	45.0%	35.0–55.0%
Fixed-income securities	32.4	33.9	35.0	25.0–45.0
Alternative investments	19.4	20.1	20.0	10.0–30.0

The CHI Master Trust allocation to alternative investments is based upon contractual commitment levels to various funds. These commitments are drawn by the fund managers as opportunities arise to invest the capital. As of June 30, 2017, the CHI Master Trust had committed to invest \$380.5 million in 26 funds, of which \$364.7 million had been invested. The remaining \$15.8 million will be invested when, and if, requested by the funds. Alternative investments within the CHI Master Trust have limited liquidity and as of June 30, 2017, \$125.0 million of investments are illiquid and not available for redemption, and \$600.6 million of investments are available for redemption within 180 days at the request of the CHI Master Trust.

A summary of the CHI Master Trust's assets at June 30 is as follows (in thousands). At both June 30, 2017 and 2016, the Plans' interest in the net assets of the CHI Master Trust was approximately 99.9%.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 10. Retirement Plans (continued)

	2017	2016
<b>Assets</b>		
Investments in securities	\$ 3,719,449	\$ 3,610,005
Receivables for securities sold	68,884	40,243
Foreign currency exchange contracts	49,037	57,155
Other receivables	11,618	10,499
Total assets	<u>3,848,988</u>	<u>3,717,902</u>
<b>Liabilities</b>		
Payable for securities purchased	53,561	46,641
Foreign currency exchange contracts	49,408	57,601
Other liabilities	2,706	2,742
Total liabilities	<u>105,675</u>	<u>106,984</u>
Total CHI Master Trust assets	<u>\$ 3,743,313</u>	<u>\$ 3,610,918</u>

The CHI Master Trust's financial instruments measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

		2017										
		Fair Value Measurements at Reporting Date Using										
		Investments		(Level 1)	(Level 2)	(Level 3)						
		Measured at		Quoted Prices	Other	Unobservable						
		Net Asset		in Active	Observable	Unobservable						
		Value (NAV)	Total	Markets	Inputs	Inputs						
Total												
<b>Assets</b>												
Cash and short-term investments	\$	106,397	\$	—	\$	106,397	\$	100,642	\$	5,755	\$	—
Equity securities		1,710,426		—		1,710,426		1,707,864		2,562		—
Fixed-income securities		1,171,383		—		1,171,383		330,660		662,532		178,191
Alternative investments		731,243		731,243		—		—		—		—
Investments in securities		3,719,449		731,243		2,988,206		2,139,166		670,849		178,191
Foreign currency exchange contracts		49,037		—		49,037		—		49,037		—
Total assets	\$	3,768,486	\$	731,243	\$	3,037,243	\$	2,139,166	\$	719,886	\$	178,191
<b>Liabilities</b>												
Foreign currency exchange contracts	\$	49,408	\$	—	\$	49,408	\$	—	\$	49,408	\$	—
Total liabilities	\$	49,408	\$	—	\$	49,408	\$	—	\$	49,408	\$	—

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

## 10. Retirement Plans (continued)

	2016					
	Fair Value Measurements at Reporting Date Using					
	Investments		(Level 1)		(Level 2)	(Level 3)
	Total	Measured at Value (NAV)	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
<b>Assets</b>						
Cash and short-term investments	\$ 107,654	\$ —	\$ 107,654	\$ 97,376	\$ 10,278	\$ —
Equity securities	1,609,188	—	1,609,188	1,605,648	3,540	—
Fixed-income securities	1,159,154	—	1,159,154	339,928	655,080	164,146
Alternative investments	734,009	734,009	—	—	—	—
Investments in securities	3,610,005	734,009	2,875,996	2,042,952	668,898	164,146
Foreign currency exchange contracts	57,155	—	57,155	—	57,155	—
<b>Total assets</b>	<b>\$ 3,667,160</b>	<b>\$ 734,009</b>	<b>\$ 2,933,151</b>	<b>\$ 2,042,952</b>	<b>\$ 726,053</b>	<b>\$ 164,146</b>
<b>Liabilities</b>						
Foreign currency exchange contracts	\$ 57,601	\$ —	\$ 57,601	\$ —	\$ 57,601	\$ —
<b>Total liabilities</b>	<b>\$ 57,601</b>	<b>\$ —</b>	<b>\$ 57,601</b>	<b>\$ —</b>	<b>\$ 57,601</b>	<b>\$ —</b>

For the years ended June 30, 2017 and 2016, the changes in fair value of the CHI Master Trust's investments, for which Level 3 inputs were used, are as follows (in thousands):

	<b>Fixed-income Securities</b>
Investments at fair value at July 1, 2015	\$ 162,321
Purchases/contributions of investments	148,796
Sales/distributions of investments	(142,434)
Net change in unrealized depreciation on investments and effect of foreign currency translation	(2,205)
Net realized losses on investments	(2,332)
Investments at fair value at June 30, 2016	164,146
Purchases/contributions of investments	166,065
Sales/distributions of investments	(155,094)
Net change in unrealized appreciation on investments and effect of foreign currency translation	5,556
Net realized losses on investments	(2,482)
Investments at fair value at June 30, 2017	<b>\$ 178,191</b>

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**10. Retirement Plans (continued)**

There were no significant transfers between Levels 1 and 2 during any period presented.

**CHI 401(k) Retirement Savings Plan**

CHI sponsors the CHI 401(k) Retirement Savings Plan (401(k) Savings Plan) for its employees whereby CHI matches 100.0% of the first 1.0% of eligible pay an employee contributes to the plan, and 50.0% of the next 5.0% of eligible pay contributed to the plan, for a maximum employer matching rate of 3.5% of eligible pay. On an annual basis and regardless of whether or not an employee participates in the 401(k) Savings Plan, CHI will also contribute 2.5% of eligible pay to an employee's 401(k) Savings Plan account. This contribution is made if an employee reaches 1,000 hours in the first year of employment, or every calendar year thereafter, and is employed on the last day of the calendar year. An employee is fully vested in the plan for employer contributions after three years of service. CHI recorded 401(k) Savings Plan expense of \$229.7 million and \$209.4 million for the years ended June 30, 2017 and 2016, respectively, which is reflected in employee benefits expenses in the accompanying consolidated statements of operations.

**11. Concentrations of Credit Risk**

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of net patient accounts receivable at June 30 approximated the following:

	2017	2016
Medicare	26%	27%
Medicaid	14	11
Managed care	33	33
Self-pay	10	11
Commercial and other	17	18
	<u>100%</u>	<u>100%</u>

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2017 and 2016.

**Catholic Health Initiatives****Notes to Consolidated Financial Statements (continued)****12. Commitments and Contingencies****Litigation**

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

**Health Care Regulatory Environment**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial statements.



## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**12. Commitments and Contingencies (continued)****Operating Leases**

CHI leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2017, are as follows (in thousands):

	<u>Amounts Due</u>
Year Ending June 30:	
2018	\$ 219,753
2019	185,662
2020	163,378
2021	138,308
2022	116,542
Thereafter	2,230,385
	<u>\$ 3,054,028</u>

Lease expense under operating leases for continuing operations for the years ended June 30, 2017 and 2016, totaled approximately \$294.2 million and \$272.4 million, respectively.

**Capital Commitments**

As of June 30, 2017, CHI has legally committed to fund \$841.9 million of capital improvements related to certain acquisitions and affiliations.

**13. Insurance Programs**

FIIL, a wholly owned captive insurance company of CHI, provides hospital professional liability, employment practices liability, miscellaneous professional liability, and commercial general liability coverage, primarily to CHI healthcare providers and all employees, including employed physicians. Coverage is provided either on a directly written basis or through a reinsurance fronting relationship with commercial insurance carriers. Policies written provide coverage with primary limits in the amount of \$10.0 million for each and every claim in fiscal years 2017 and 2016. For the policy year July 1, 2016 to July 1, 2017, there is an annual policy aggregate of \$85.0 million eroded by hospital professional liability and commercial general liability claims, subject to a \$175,000 continuing underlying per claim limit. Effective July 1, 2011, FIIL provided excess

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**13. Insurance Programs (continued)**

umbrella liability coverage to CHI for claims in excess of the underlying limits discussed above. The limits provided under such excess coverage are \$200.0 million per claim and in the aggregate. FIIL reinsured 100% of the excess layer with various commercial insurance companies. At June 30, 2017 and 2016, investments and assets limited as to use held for insurance purposes included \$55.9 million and \$59.9 million, respectively, held as collateral for the reinsurance fronting arrangement.

FIIL provided workers' compensation coverage to CHI entities on a directly written basis for the current and prior fiscal years, with limits of liability of \$1 million per claim. FIIL did not reinsure this coverage for the current and prior fiscal years.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary.

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience, estimated reserves were reduced by \$63.3 million and \$46.6 million in fiscal years 2017 and 2016, respectively. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4.0% annual return at June 30, 2017 and 2016, to a present value of \$155.5 million and \$156.9 million at June 30, 2017 and 2016, respectively, and represented a discount of \$50.2 million and \$51.8 million in 2017 and 2016, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

FIIL holds \$848.8 million and \$809.8 million of investments held for insurance purposes as of June 30, 2017 and 2016, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

## Catholic Health Initiatives

## Notes to Consolidated Financial Statements (continued)

**13. Insurance Programs (continued)**

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include \$58.8 million and \$63.7 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2017 and 2016, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

**14. Subsequent Events**

CHI's management has evaluated events subsequent to June 30, 2017 through September 15, 2017, which is the date these consolidated financial statements were issued. There have been no material events noted during this period that would either impact the results reflected herein or CHI's results going forward, except as disclosed below.

In September 2017, CHI purchased the noncontrolling interest in KentuckyOne Health from the remaining partner for \$150 million – see Note 4, *Acquisitions, Affiliations and Divestitures*.

During August 2017, CHI St. Luke's in Houston, Texas, was impacted by Hurricane Harvey, which caused the temporary closure and evacuation of certain area facilities for a few days. Although all hospitals in Houston, Texas, are now operational, CHI is evaluating the impact of the hurricane on its facilities and operations in the state.

## Supplementary Information



Ernst & Young LLP  
Suite 3300  
370 17th Street  
Denver, CO 80202

Tel: +1 720 931 4000  
Fax: +1 720 931 4444  
ey.com

## Report of Independent Auditors on Supplementary Information

The Board of Stewardship Trustees  
Catholic Health Initiatives

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Catholic Health Initiatives as a whole. The consolidating details appearing in conjunction with the financial statements are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst & Young LLP*

September 15, 2017

## Catholic Health Initiatives

Consolidating Balance Sheet  
(In Thousands)

June 30, 2017

	MBOs	Corporate	FHIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
<b>Assets</b>							
Current assets:	\$ 759,353	\$ 177,590	\$ 67	\$ 19,567	\$ 76,589	\$ —	\$ 1,033,166
Cash and equivalents	2,168,221	—	—	—	—	(13,973)	2,154,248
Net patient accounts receivable, less allowance for bad debts of \$1,024,099	228,352	413,369	1,080	(93)	12,166	(403,737)	251,137
Other accounts receivable	5,312	59,849	—	—	—	—	65,161
Current portion of investments and assets limited as to use	302,406	—	—	—	—	—	302,406
Inventories	396,935	—	—	—	185,409	—	582,344
Assets held for sale	76,738	76,350	6	—	532	—	153,626
Prepaid and other	3,937,317	727,158	1,153	19,474	274,696	(417,710)	4,542,088
<b>Total current assets</b>							
	5,126,640	103,025	—	75,664	—	5,479	5,310,808
Investments and assets limited as to use:							
Internally designated for capital and other funds	—	151,795	—	—	—	(25,000)	126,795
Mission and ministry fund	—	136,585	—	—	—	—	136,585
Capital resource pool	16,707	60,143	—	—	—	—	76,850
Held by trustees	15,090	—	848,753	—	13,079	—	876,922
Held for insurance purposes	257,738	657	—	—	116	—	258,511
Restricted by donors	5,416,175	452,205	848,753	75,664	13,195	(19,521)	6,786,471
<b>Total investments and assets limited as to use</b>							
	7,867,403	687,832	—	—	14,078	—	8,569,313
Property and equipment, net	647,633	1,025,372	—	—	15,522	(367,074)	1,321,453
Investments in unconsolidated organizations	459,537	14,300	—	—	—	—	473,837
Intangible assets and goodwill, net	787,617	3,213,327	24,842	1,674	54	(3,788,926)	238,588
Notes receivable and other	\$ 19,115,682	\$ 6,120,194	\$ 874,748	\$ 96,812	\$ 317,545	\$ (4,593,231)	\$ 21,931,750
<b>Total assets</b>							

## Catholic Health Initiatives

Consolidating Balance Sheet (continued)  
(In Thousands)

	MBOs	Corporate	PHL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
<b>Liabilities and net assets</b>							
Current liabilities:							
Compensation and benefits	\$ 498,250	\$ 127,021	\$ —	\$ 1,155	\$ 16,197	\$ —	\$ 642,623
Third-party liabilities, net	85,087	—	—	—	—	—	85,087
Accounts payable and accrued expenses	1,618,020	352,646	6,448	58,759	71,687	(417,711)	1,689,849
Liabilities held for sale	47,402	—	—	—	118,333	—	165,735
Variable-rate debt with self-liquidity	—	96,700	—	—	—	—	96,700
Current portion of long-term debt	206,888	1,955,188	—	—	—	(144,568)	2,017,508
Total current liabilities	2,455,647	2,531,555	6,448	59,914	206,217	(562,279)	4,697,502
Pension liability	268,073	848,489	—	—	—	(5,579)	1,110,983
Self-insured reserves and claims	13,856	4,246	617,553	—	125	—	635,780
Other liabilities	498,687	672,841	—	—	1,021	—	1,172,549
Long-term debt	3,704,208	6,517,952	—	—	10,700	(3,644,658)	6,588,202
Total liabilities	6,940,471	10,575,083	624,001	59,914	218,063	(4,212,516)	14,205,016
<b>Net assets:</b>							
Net assets attributable to CHI	11,554,064	(4,540,869)	250,747	36,898	99,328	(352,263)	7,047,905
Net assets attributable to noncontrolling interests	310,395	85,540	—	—	—	(28,452)	367,483
Unrestricted	11,864,459	(4,455,329)	250,747	36,898	99,328	(380,715)	7,415,388
Temporarily restricted	213,656	440	—	—	154	—	214,250
Permanently restricted	97,096	—	—	—	—	—	97,096
Total net assets	12,175,211	(4,454,889)	250,747	36,898	99,482	(380,715)	7,726,734
Total liabilities and net assets	\$ 19,115,682	\$ 6,120,194	\$ 874,748	\$ 96,812	\$ 317,545	\$ (4,593,231)	\$ 21,931,750

Catholic Health Initiatives  
Consolidating Statement of Operations  
(In Thousands)

Year Ended June 30, 2017

	MBOs	Corporate	FIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:							
Net patient services revenues	\$ 14,634,150	\$ -	\$ -	\$ -	\$ -	(183,282)	\$ 14,450,868
Other operating revenues:							
Donations	30,951	1	-	-	2	-	30,954
Changes in equity of unconsolidated organizations	8,318	(99,478)	-	-	2,401	137,163	48,404
Hospital ancillary revenues	336,467	48	-	-	2,557	-	339,072
Other	523,710	1,633,993	191,164	647,464	398,230	(2,736,395)	678,166
Total other operating revenues	899,446	1,554,564	191,164	647,464	403,190	(2,599,232)	1,096,596
Total operating revenues	15,533,596	1,554,564	191,164	647,464	403,190	(2,782,514)	15,547,464
Expenses:							
Salaries and wages	5,990,014	291,481	-	-	202,527	(189,188)	6,294,834
Employee benefits	1,336,787	40,328	32,314	664,064	56,090	(928,539)	1,201,044
Purchased services, medical professional fees, medical claims and consulting	2,542,714	856,627	11,970	3,173	149,661	(1,161,667)	2,402,478
Supplies	2,543,198	7,038	-	-	92	-	2,550,328
Utilities	190,201	19,987	-	-	97	-	210,285
Rentals, leases, maintenance and insurance	568,735	545,846	93,667	-	2,115	(309,091)	901,272
Depreciation and amortization	730,877	113,589	-	-	1,825	-	846,291
Interest	179,861	267,042	-	-	519	(151,946)	295,476
Other	1,176,052	47,412	486	2,190	9,641	(179,245)	1,056,536
Total operating expenses before restructuring, impairment and other losses	15,258,439	2,189,350	138,437	669,427	422,567	(2,919,676)	15,758,544
Income (loss) from operations before restructuring, impairment and other losses	275,157	(634,786)	52,727	(21,963)	(19,377)	137,162	(211,080)
Restructuring, impairment and other losses	161,986	199,850	6,715	-	5,616	-	374,167
Income (loss) from operations	113,171	(834,636)	46,012	(21,963)	(24,993)	137,162	(585,247)



## Catholic Health Initiatives

Consolidating Statement of Operations (continued)  
(In Thousands)

	MBOs	Corporate	FYIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Nonoperating gains (losses):							
Investment gains (losses), net	\$ 528,951	\$ 46,541	\$ 52,124	\$ 5,524	\$ (101)	\$ 5,480	\$ 638,519
Losses on extinguishment of debt	(3,408)	(16,178)	-	-	-	-	(19,586)
Realized and unrealized gains on interest rate swaps	7,506	85,192	-	-	-	-	92,698
Other nonoperating gains	1,533	-	-	-	-	453	2,006
Total nonoperating gains (losses)	534,602	115,555	52,124	5,524	(101)	5,933	713,637
Excess (deficit) of revenues over expenses	647,773	(719,081)	98,136	(16,439)	(25,094)	143,095	128,390
Excess (deficit) of revenues over expenses attributable to noncontrolling interest	32,989	(13,041)	-	-	-	-	19,948
Excess (deficit) of revenues over expenses attributable to CHI	\$ 614,784	\$ (706,040)	\$ 98,136	\$ (16,439)	\$ (25,094)	\$ 143,095	\$ 108,442

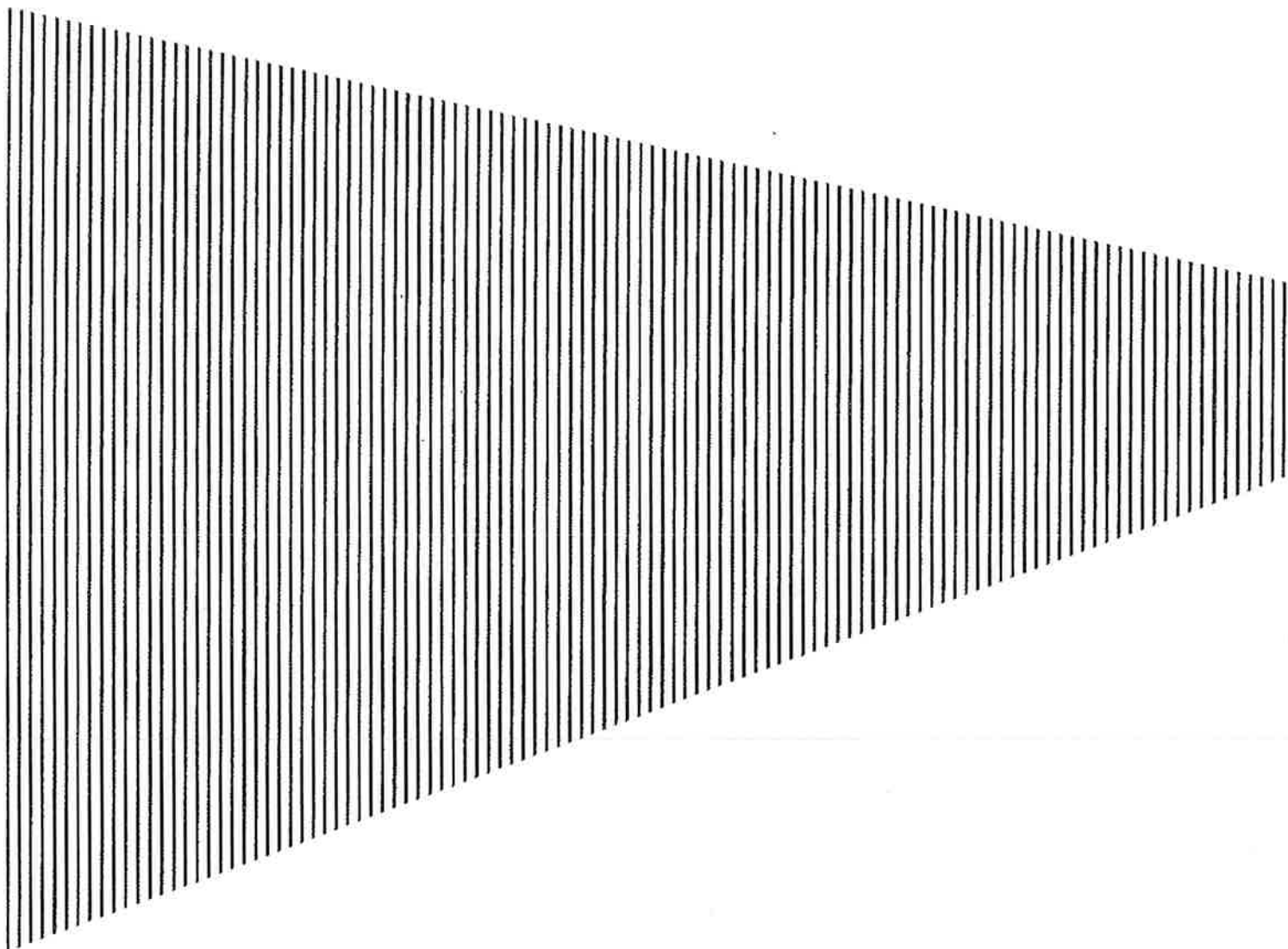
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# APPLICATION ATTACHMENTS

## Section B

### B-Orderly Development-1

#### Contractual List

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
Beacon Health Alliance PC	Mountain Management Services	Beckman Coulter, Inc.	10324.118210C	Equipment Lease	Laboratory Services	12/20/2013	12/19/2018	Chemistry & Immunoassay Equipment/Products - HPG #500290
Memorial Healthcare System	Memorial Health Care System, Inc.	CareFusion Solutions, LLC	2008.51279C	Equipment Rental Agreement	Pharmacy	5/23/2012	5/4/2018	Interface Engine Hardware / PYXIS
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	Hixson Mall, LLC	2008.110520C	Real Estate Easements	Administration	11/1/2015	10/31/2018	5000 Hixson Pike
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	2008.114120C	Physician: Real Estate Sublease (MBO as Landlord)	Real Estate Services	5/15/2015	5/14/2018	Medical Space and Service Lease 5022 Old Godsey Lane, Hixson, TN Suite #8,
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	American College of Radiology	2008.121091C	Membership / Subscription (Hosp Assoc., Advisory Board, etc.)	Radiology/Imaging	3/23/2017	3/22/2019	NRDR Agreement by and Between The American College of Radiology and MHCS, Inc.
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	Steris Instrument Management Services	2008.49293C	Non-Clinical Services Agreement	Facilities Operations (Building And Groups)	9/1/2011	8/31/2018	Generator Maintenance Services
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	CareFusion Solutions, LLC	2008.51279C	Equipment Rental Agreement	Pharmacy	5/23/2012	5/4/2018	Interface Engine Hardware / PYXIS

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	Memorial Hixson Surgical Center	2008.71184C	Physician: Professional Services/Non-Physician/Clinical	Surgical Services	1/1/2014	12/30/2017	Call Coverage Agmt
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	Visconti, Vincent A., M.D.	2008.72696C	Physician: Real Estate Lease (MBO as Landlord)	Real Estate Services	2/21/2014	2/20/2018	Hixson Lease Space and Service
Memorial Health Care System, Inc.	Memorial Health Care System, Inc.	LifeNet Health	2008.98101C	Consignment Agreement	Ortho / Neuro Services	12/3/2014	12/2/2019	Orthobiologics - HPG #4094
Memorial Health Partners	Memorial Health Care System, Inc.	Hixson Pike Medical Associates, PC/Ozborn, Michael; Mariani, Mario; Duplooy, Johannes; Selzer, Jerrold; Siekermann, Luke	2008.32051C	Real Estate Purchase Agreements & Deals	Physician Services	7/1/2006	6/30/2020	
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Mariani, Mario MD	10323.19953C	Physician: Employment Agreement	Physician Services	7/1/2015	6/30/2018	Amended and Restated Physician Employment Agmt PCP - Internal medicine
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Selzer, Jerrold L., M.D.	10323.23356C	Physician: Employment Agreement	Physician Services	7/1/2015	6/30/2018	Amended and Restated Physician Employment

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
								ment Agmt for Internal Medicine Services
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Medical Associates Group #1	<u>10323.24873</u> C	Physician: Real Estate Lease (MBO as Tenant)	Physician Services	7/1/2006	6/30/2018	Lease Agreement 3739 Hixson Pike
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Patton-Evans, Anja MD	<u>10323.31926</u> C	Physician: Employment Agreement	Physician Services	7/1/2015	6/30/2018	Intensivist/ICU Employment Agmt for Pulmonary Critical Care at CHI Memorial & CHI Memorial Hixson
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Quest Diagnostics	<u>10323.49139</u> C	Equipment Rental Agreement	Laboratory Services	3/31/2011	3/30/2018	CareLab360 - Access to view and print lab results for patients.
Memorial Health Partners Foundation	Memorial Health Partners Foundation	ACUSIS LLC	<u>10323.56514</u> C	Non-Clinical Services Agreement	Health Information Management (HIM)	9/1/2012	8/31/2018	Transcription Services
Memorial Health Partners Foundation	Memorial Health Partners Foundation	First Data Global Leasing	<u>10323.57592</u> C	Equipment Lease	Information Technology	12/15/2012	12/15/2018	Credit Card Chip Reader for multiple entities (see attachments)
Memorial Health Partners Foundation	Memorial Health Partners Foundation	Fletcher Brigham	<u>10323.63701</u> C	Real Estate Lease	Real Estate Services	9/1/2013	8/30/2023	Highland Plaza

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
Albany Partners Foundation	Albany Partners Foundation	Health Company	C	Lease (MBO as Tenant)	Services			Lease - MHPF d/b/a Northshore Health Center
Memorial Hospital	Memorial Health Care System, Inc.	Diagnostic Pathology Services, P.C.	2008.2631C	Physician: Professional Services/Non-Physician/Clinical	Laboratory Services	7/1/2014	6/30/2019	Pathology Services & Medical Director Agreement
Memorial Hospital	Memorial Health Care System, Inc.	Kadrie, Tarek M.D., PLLC	2008.2701C	Physician: Real Estate Lease (MBO as Landlord)	Real Estate Services	2/21/2014	2/20/2018	MOB EAST 680 - SLEEP CENTER, 498.87 USF + 248.37 USF of storage, 725 W Glenwood Dr. (Space and Service)
Memorial Hospital	Memorial Health Care System, Inc.	Eye Surgery Center of Chattanooga	2008.5586C	Clinical Services/Patient Care Agreement	Emergency Services	4/1/2012	3/31/2019	Emergency Medical Services Agreement
Memorial Hospital	Memorial Health Care System, Inc.	Visconti, Vincent A., M.D.	2008.15210C	Physician: Medical Director Agreement	Sleep Diagnostic Center	7/1/2014	6/30/2020	Sleep Services Medical Director
Memorial Hospital	Memorial Health Care System, Inc.	Diagnostic Imaging Consultants, Inc./Brisese, Brinn, Coughran, Kingman, Lynn, M	2008.15290C	Physician: Professional Services/Non-Physician/Clinical	Radiology/Imaging	4/1/2014	3/31/2018	AMENDED AND RESTATED RADIOLOGY AND MEDICAL IMAGING

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
		Hills, D., Munday, Piez, Quinn, Rimmer, Tipps, J., Varnell, Watson						RVICES AGREEMENT
Memorial Hixson Hospital	Memorial Health Care System, Inc.	Brown, Thomas W, III, MD	<u>2008.16325C</u>	Real Estate Sale Agreement	Real Estate Services	10/14/2003	10/13/2050	
Memorial Hixson Hospital	Memorial Health Care System, Inc.	North Park LLC	<u>2008.17046C</u>	Real Estate Lease (MBO as Tenant)	Real Estate Services	8/31/2012	9/1/2021	Parking lease at Memorial Hixson
Memorial Hixson Hospital	Memorial Health Care System, Inc.	Bradley Memorial Hospital /SkyRidge Medical Center	<u>2008.20522C</u>	Transfer Agreement	Patient Care Services/Nursing	4/1/2014	3/31/2018	
Memorial Hixson Hospital	Memorial Health Care System, Inc.	The Surgery Center of Cleveland	<u>2008.20523C</u>	Transfer Agreement	Patient Care Services/Nursing	9/14/2012	9/14/2018	
Memorial Hixson Hospital	Memorial Health Care System, Inc.	Digestive Disorders Endoscopy Center/ Paik, Henry; Sadowitz, Richard; Krause, Richard	<u>2008.20527C</u>	Transfer Agreement	Patient Care Services/Nursing	9/19/2011	9/18/2018	
Memorial Hixson Hospital	Memorial Health Care System, Inc.	Kindred Health Care	<u>2008.20534C</u>	Transfer Agreement	Patient Care Services/Nursing	3/1/2009	9/30/2018	Transfer Agreement
Memorial Hixson Hospital	Memorial Health Care System, Inc.	Laurelbrook Nursing Home	<u>2008.20536C</u>	Transfer Agreement	Patient Care Services/Nursing	10/1/2012	10/1/2018	



Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
	Mem, Inc.				ing			
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	National Healthcare Center of Ft. Oglethorpe	<u>2008.20543C</u>	Transfer Agreement	Patient Care Services/Nursing	9/22/2011	9/21/2018	
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Open Arms Care	<u>2008.20545C</u>	Transfer Agreement	Patient Care Services/Nursing	9/21/2011	9/20/2018	
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Siskin Hospital for Physical Rehabilitation	<u>2008.20548C</u>	Transfer Agreement	Patient Care Services/Nursing	10/1/2012	10/1/2018	
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Spring City Healthcare	<u>2008.20549C</u>	Transfer Agreement	Patient Care Services/Nursing	11/1/2012	10/31/2018	Spring City Healthcare Rehabilitation Center
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Siskin Hospital for Physical Rehabilitation	<u>2008.20550C</u>	Transfer Agreement	Patient Care Services/Nursing	9/22/2011	9/21/2018	
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	State of Tennessee Department of Health	<u>2008.22223C</u>	Certificate/License	Administration	7/1/2009	11/3/2018	
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Joint Commission Resources	<u>2008.22236C</u>	Certificate/License	Administration	6/1/2005	Evergreen	JCAHO
Memorial Hill Hixon Hospital	Memorial Health Care System, Inc.	Women's East, Inc.	<u>2008.22714C</u>	Transfer Agreement	Patient Care Services/Nursing	10/22/1996	10/21/2018	
Memorial Hill	Memorial Health Care System, Inc.	BellSouth Tel	<u>2008.22828C</u>	Real Estate	Real Estate Services	10/4/2005	Evergreen	

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
Memorial Hill Hospital	Memorial Health Care System, Inc.	DCI Donor Services, Inc.	2008.23404C	Clinical Services/Patient Care Agreement	Surgical Services	6/1/2010	6/1/2018	Organ and Tissue Donation Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	Varnell, J. Lannette, M.D.	2008.23590C	Physician: Medical Director Agreement	Breast Services	6/1/2016	5/31/2019	Diagnostic Imaging Consultants, PC
Memorial Hill Hospital	Memorial Health Care System, Inc.	Blood Assurance Inc.	2008.23802C	Clinical Services/Patient Care Agreement	Laboratory Services	1/1/2012	12/31/2021	Blood Products/Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	Vanderbilt University	2008.23820C	Consulting Services Agreement	Pharmacy	10/14/2014	6/30/2020	Poison Prevention, Poison Management, and Drug Information Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	State of Tennessee Department of Health	2008.23821C	Certificate/License	Pharmacy	3/31/2006	3/31/2018	Pharmacy License. Tennessee Board of Pharmacy ID 000001847
Memorial Hill Hospital	Memorial Health Care System, Inc.	National Disaster Medical System	2008.24394C	Non-Clinical Services Agreement	Facilities Operations (Building And Grounds)	2/13/2007	2/12/2019	Disaster Recovery Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	North Park Hospital	2008.25286C	Real Estate Purchase Agreement	Real Estate Services	6/29/1990	Evergreen	

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
	Mem, Inc.			Leases & Deeds				
Memorial Hill Hudson Hospital	Memorial Health Care System, Inc.	Tennessee Oncology, PLLC	<u>2008.25484C</u>	Physician: Real Estate Sublease (MBO as Landlord)	Real Estate Services	2/1/2013	1/31/2021	MNP POB 2051 Hamill Road, Suite 104
Memorial Hill Hudson Hospital	Memorial Health Care System, Inc.	Cohen, Jonathan MD	<u>2008.35159C</u>	Physician: Professional Services/Non-Physician/Clinical	Physician Services	3/30/2012	2/28/2018	On-Call Psychiatric Coverage
Memorial Hill Hudson Hospital	Memorial Health Care System, Inc.	Visconti, Vincent A., M.D.	<u>2008.40699C</u>	Physician: Personal Services Agreement	Medical Staff Services	1/1/2016	12/31/2018	On-Call Services Agreement (Pulmonary/Critical Care)
Memorial Hill Hudson Hospital	Memorial Health Care System, Inc.	U.S. Air Ambulance	<u>2008.41076C</u>	Mutual Aid Agreement	Administration	4/1/2009	3/31/2018	
Memorial Hill Hudson Hospital	Memorial Health Care System, Inc.	Westat Corporation	<u>2008.41143C</u>	Software Services	Medical Affairs	6/27/2017	6/26/2018	Data from Employee Survey
Memorial Hill Hudson Hospital	Memorial North Park	Tennessee Valley Authority	<u>10320.41032C</u>	Partnership Agreement	Safety and Security	9/1/2014	8/31/2019	Mutual Aid Agreement
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Dodson, David B., MD	<u>10323.23239C</u>	Physician: Employment with Medical Director or Clinic Director	Physician Services	7/1/2016	6/30/2019	Hospitalist Medical Director

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Andrescu, Oana M.D.	<u>10323.24590</u> <u>C</u>	Physician: Employment Agreement	Physician Services	7/1/2015	6/30/2018	Physician Employment Agreement-Internal Medicine
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Cleinman, Alicia, M.D.	<u>10323.11696</u> <u>6C</u>	Physician: Employment Agreement	Physician Services	12/27/2016	12/26/2019	Physician Employment Agreement for Geriatric Services
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Blakeney, Aaron, M.D.	<u>10323.11696</u> <u>8C</u>	Physician: Employment Agreement	Physician Services	11/11/2016	11/10/2019	Physician Employment Agreement Hospitalist
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Medam, Gururaj, M.D.	<u>10323.11734</u> <u>7C</u>	Physician: Employment Agreement	Physician Services	10/18/2016	2/28/2020	Physician Employment Agreement for Family Practice Services
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Baker, Sarah McCary, M.D.	<u>10323.11795</u> <u>4C</u>	Physician: Employment Agreement	Physician Services	2/24/2017	9/17/2020	Physician Employment Agreement for Internal Medicine
Memorial Hill Hudson Hospital	Memorial Health Partners Foundation	Cornea, Paul, M.D.	<u>10323.11805</u> <u>9C</u>	Physician: Employment Agreement	Physician Services	3/1/2016	2/28/2019	Physician Employment Agreement for Infectious Disease Services
Memorial Hill	Memorial Health Partners Foundation	Javed, Asad,	<u>10323.12003</u>	Physician: Employment Agreement	Physician Services	4/14/2017	10/15/2020	Pulmonary/Critical Care

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
xson Hospital	Memorial Health Partners Foundation	M.D.	6C	Physician Employment Agreement	Physician Services			Physician Employment Agreement
Memorial Hixson Hospital	Memorial Health Partners Foundation	Parkhurst, Christina, M.D.	10323.12066 5C	Physician Employment Agreement	Physician Services	8/22/2017	8/21/2020	Physician Employment Agreement for General Surgery Services
Memorial Hixson Hospital	Memorial Health Partners Foundation	Daniels, H. Alicia, M.D.	10323.12099 0C	Physician Employment Agreement	Physician Services	6/29/2017	11/6/2020	Physician Employment Agreement for Pediatric Services
Memorial Hixson Hospital	Memorial Health Partners Foundation	Holguin, Gerardo, M.D.	10323.12142 1C	Physician Employment Agreement	Administration	10/26/2017	1/28/2022	Pulmonary/Critical Care Employment Agreement
Memorial Hixson Hospital	Memorial Health Partners Foundation	McNamara, Ryan S., M.D.	10323.44608 C	Physician Employment Agreement	Physician Services	5/1/2015	4/30/2018	Hospitalist
Memorial Hixson Hospital	Memorial Health Partners Foundation	Bhadra, Krishnendu, MD	10323.45586 C	Physician Employment Agreement	Physician Services	4/1/2014	3/31/2019	Interventional Pulmonology Employment Agreement
Memorial Hixson Hospital	Memorial Health Partners Foundation	Virani, Subhash, M.D.	10323.47669 C	Physician Employment Agreement	Physician Services	5/1/2015	4/30/2018	Hospitalist
Memorial Hixson Hospital	Memorial Health Partners Foundation	Memorial Health Partners Foundation d/b/a Maurice	10323.50577 C	Real Estate Lease (MBO as Landlord)	Oncology Services	5/15/2015	5/14/2018	Space and Services Lease 5022 Old Gods Eye Lane, Hixson

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
		Rawlings, M. D.						on, TN
Memorial Hill Hixson Hospital	Memorial Health Care System	Jones, Samuel D.O., M.D.	10384.11697 1C	Physician: Employment Agreement	Physician Services	12/28/2016	12/27/2018	Physician Employment Agreement - Electrophysiology
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	Tallent, Phillip D.	2008.104110 C	Physician: Real Estate Lease (MBO as Landlord)	Real Estate Services	3/10/2015	3/9/2018	Sleep Center Space & Services Agmt - Mem Hixson
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	CHI Memorial Family Practice Associates Trenton	2008.110867 C	Physician: Sale of Services	Physician Services	10/13/2015	10/12/2018	Telephone Answering Services
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	Society of Cardiovascular Patient Care, Inc	2008.113209 C	Non-Clinical Services Agreement	Administration	3/23/2016	3/22/2019	Accreditation Business Agreement
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	Intervent	2008.116278 C	Independent Contractor Agreement	Cardiovascular/Cardiopulmonary	11/1/2016	4/30/2018	Service Provider Agreement for the "INTERVENT P rogram"
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	Clark, Erica, D.O.	2008.118045 C	Physician: Recruitment Agreement	Physician Services	3/8/2017	3/7/2019	Physician Recruitment Agreement
Memorial Hill Hixson Hospital	Memorial Health Care System, Inc.	Center for Oral and Facial Surgery/Associates in Oral	2008.118059 C	Transfer Agreement	Patient Care Services/Nursing	3/15/2017	3/14/2019	Transfer Agreement

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
		and Max/Tipps, S., Tipps, W., Spann, Jones, H.						
Memorial Hill Hospital	Memorial Health Care System, Inc.	MSDSonline, Inc.	<u>2008.118587C</u>	Non-Clinical Services Agreement	Facilities Operations (Building And Grounds)	5/1/2017	4/30/2020	MSDS Management Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	University Surgical Associates LLC	<u>2008.121425C</u>	Physician: Real Estate Lease (MBO as Landlord)	Real Estate Services	10/23/2017	10/23/2018	Medical Space & Services Lease
Memorial Hill Hospital	Memorial Health Care System, Inc.	Life Care Centers of America	<u>2008.42077C</u>	Transfer Agreement	Patient Care Services/Nursing	9/23/2011	9/22/2018	Life Care Clinic and Land
Memorial Hill Hospital	Memorial Health Care System, Inc.	Linde, Inc.	<u>2008.43245C</u>	Non-Clinical Services Agreement	Supply Chain	4/1/1996	3/31/2018	Bulk Oxygen & Medical Gas Cylinder Services
Memorial Hill Hospital	Memorial Health Care System, Inc.	Kodsi, Matthew M.D.	<u>2008.45498C</u>	Physician: Medical Director Agreement	Physician Services	1/17/2015	1/16/2019	Neuroscience Medical Director Services Agreement
Memorial Hill Hospital	Memorial Health Care System, Inc.	Memorial Surgical Associates Group, LLC	<u>2008.50047C</u>	Physician: Professional Services/Non-Physician/Clinical	Physician Services	10/1/2014	9/30/2018	On Call Coverage Svc Agreement
Memorial Hill Hospital	Memorial Health Care System, Inc.	Nellcor Puritan Bennett, LLC	<u>2008.66254C</u>	Pricing Agreement	Patient Care Services/Nursing	10/9/2013	1/31/2020	Patient Monitoring Custom

Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
	Memorial Health System, Inc.	McDonald/b/a Covidien			Engineering			Server Optimization on LOC - HP G #500233
Memorial Hixson Hospital	Memorial Health System, Inc.	Bracco Diagnostics, Inc.	2008.97478C	Pricing Agreement	Laboratory Services	10/1/2014	4/30/2019	Contrast Media Loyalty Program - HPG #1304
Memorial Hospital	Memorial Health System, Inc.	CareFusion Solutions, LLC	2008.51279C	Equipment Rental Agreement	Pharmacy	5/23/2012	5/4/2018	Interface Engine Hardware / PYXIS
Memorial Hospital	Memorial Health System, Inc.	Xanitos, Inc.	2008.62916C	Consulting Services Agreement	Facilities Operations (Building And Grounds)	5/15/2013	8/15/2018	Environmental Consulting Services
Memorial North Park POB	Memorial Health System, Inc.	McLean, George, M.D.	2008.26523C	Physician: Real Estate Sublease (MBO as Landlord)	Real Estate Services	2/1/2012	7/31/2019	Storage Sublease NP POB - S-405A 2051 Hamill Road Hixson, TN
Memorial North Park POB	Memorial Health System, Inc.	Beacon Health Alliance dba Associates in Internal Medicine	2008.41880C	Physician: Real Estate Sublease (MBO as Landlord)	Real Estate Services	12/1/2010	11/30/2020	2051 Hamill Road, Suite 103, Hixson, TN 37343
Memorial North Park POB	Memorial Health System, Inc.	Chattanooga Orthopaedic Group, P.C.	2008.63050C	Physician: Real Estate Lease (MBO as Landlord)	Real Estate Services	1/17/2002	1/6/2032	2051 Hamill Road, Suites 102 and 300
Mission Health System	Mission Health System	Hixson Urology, P.C.	10799.106073C	Physician: Network Affiliate	Physician Services	11/3/2014	12/31/2021	CIN Participation Agreement



Site	Contracting Entity	Vendor (Other Party)	Contract No.	Contract Type	Department	Effective Date	Expiration Date	Description
rk, LLC	rk, LLC			ion Agreement				nt
Mission Health Care Network, LLC	Mission Health Care Network, LLC	Obstetrics & Gynecology of Hixson, PLLC	10799.110500C	Physician: Network Affiliation Agreement	Physician Services	8/21/2014	12/31/2021	CIN Participation Agreement

# APPLICATION ATTACHMENTS

## Section B

### B-Orderly Development-4A-1

### Accreditation



June 8, 2016

Larry Schumacher  
CEO  
Memorial Health Care System  
2525 deSales Avenue  
Chattanooga, TN 37404

Joint Commission ID #: 7813  
Program: Hospital Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 06/08/2016

Dear Mr. Schumacher:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Hospitals**

This accreditation cycle is effective beginning March 12, 2016 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark G. Pelletier, RN, MS

Chief Operating Officer

Division of Accreditation and Certification Operations

# APPLICATION ATTACHMENTS

## Section B B-Orderly Development-4A-2 License

# Board for Licensing Health Care Facilities



State of Tennessee

No. of Beds 0405  
0000000071

## DEPARTMENT OF HEALTH

*This is to certify, that a license is hereby granted by the State Department of Health to*  
MEMORIAL HEALTH CARE SYSTEM INC. *to conduct and maintain a*

*Hospital* MEMORIAL HEALTH CARE SYSTEM (AND HIXSON)  
*Located at* 2525 DESALES AVENUE, CHATTANOOGA  
*County of* HAMILTON, *Tennessee.*

*This license shall expire* NOVEMBER 03, 2018, *and is subject*  
*to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable,*  
*and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the*  
*laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

*In Witness Whereof, we have hereunto set our hand and seal of the State this* 20TH *day of* SEPTEMBER, 2017.

GENERAL HOSPITAL  
PEDIATRIC PRIMARY HOSPITAL

*In the District Category(ies) of:*



*By* Theresa J. Davis, MPH  
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

*By* M. J. Daph  
COMMISSIONER

# APPLICATION ATTACHMENTS

## Section B

### B-Orderly Development-4A-3

### License Update



December 14, 2017

Larry P. Schumacher, CEO  
 Memorial Health Care System (and Hixson)  
 2525 deSales Avenue  
 Chattanooga, TN 37404

Facility Type: Hospital  
 License Number: 71

Dear Administrator:

Occupancy approval is hereby granted for minor renovation to the satellite location Memorial Hospital - Hixson, 2051 Hamill Road, Hixson, Tennessee 37343 consisting of converting rooms 225, 226, 312, 320 and 326 to acute care beds. This will increase the bed complement from 69 to 74 (5 beds) to this satellite location; effective November 21, 2017. This occupancy approval **increases** the overall bed complement of your facility from 405 to 410.

An updated license will be forwarded to your facility within the next seven to ten business days.

**For certification purposes please be advised, it is your responsibility to contact your Health Care Facility's regional office to request Medicare/Medicaid participation. The East Tennessee Regional Office phone number is 865-574-0730.**

Please contact me if I can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Eddie J. Stewart".

Eddie J. Stewart  
 Health Facilities Program Manager  
 Office of Health Care Facilities  
 Licensure Section

cc: East Tennessee Regional Administrator  
 Health Services and Development Agency  
 Nerissa Harvey, Policy Planning and Assessment  
 Lonnie Matthews, Office of Health Statistics  
 Nora Sewell, Tennessee Hospital Association  
 Alyssa Chase, MHA, HCQIP, Director Q Source  
 Medicaid Provider Enrollment  
 Kay Ulmer, Department of Health Finance and Administration  
 Plans Review  
 Dee Willis, Information Technology Services Division

Division of Health Licensure and Regulation • Office of Health Care Facilities  
 665 Mainstream Drive • Second floor • Nashville, Tennessee • 37243

# APPLICATION ATTACHMENTS

## Section B

### B-Orderly Development-4B

### Survey Findings





STATE OF TENNESSEE  
DEPARTMENT OF HEALTH  
OFFICE OF HEALTH LICENSURE AND REGULATION  
EAST TENNESSEE REGION  
5904 LYONS VIEW PIKE, BLDG. 1  
KNOXVILLE, TENNESSEE 37919

July 17, 2008

Ms. Debra Moore, Administrator  
Memorial Healthcare System, Inc.  
2525 DeSales Avenue  
Chattanooga TN 37404

Dear Ms. Moore:

The East Tennessee Regional Office of Health Care Facilities conducted a State licensure survey on January 9, 2008. An on-site revisit and review of your plan of correction for the deficiencies cited as a result of the survey was conducted on March 18, 2008. Based on the on-site revisit, we are accepting your plan of correction and your facility is in compliance with all participation requirements as of March 6, 2008.

If you have any questions concerning this letter, please contact our office at (865) 588-5656.

Sincerely,

Faye Vance, R.N., B.S., M.S.N.  
Public Health Nurse Consultant Manager

FV:afll

JAN 16 2008



STATE OF TENNESSEE  
 DEPARTMENT OF HEALTH  
 OFFICE OF HEALTH LICENSURE AND REGULATION  
 EAST TENNESSEE REGION  
 5904 LYONS VIEW PIKE, BLDG. 1  
 KNOXVILLE, TENNESSEE 37919

January 14, 2008

Ms. Debra Moore, Administrator  
 Memorial Healthcare System, Inc.  
 2525 DeSales Avenue  
 Chattanooga TN 37404

Dear Administrator:

Enclosed is a Statement of Deficiencies which was developed as the result of the state licensure survey conducted at Memorial Healthcare System, Inc. and Northpark Hospital on January 8 and 9, 2008. Corrective action must be achieved prior to February 23, 2008, the forty-fifth (45<sup>th</sup>) day from the date of survey. A revisit may be conducted to verify compliance.

Please develop a Plan of Correction for the deficiencies cited and return within ten (10) calendar days after receipt of this letter to:

Bureau of Health Licensure and Regulation  
 Lakeshore Park, Building 1  
 5904 Lyons View Pike  
 Knoxville, TN 37919

Your POC must contain the following:

- What corrective action(s) will be accomplished for those patients found to have been affected by the deficient practice;
- How you will identify other patients having the potential to be affected by the same deficiency practice and what corrective action will be taken;
- What measures will be put into place or what systemic changes you will make to ensure that the deficient practice does not recur; and,
- How the corrective action(s) will be monitored to ensure the deficient practice will not recur; i.e., what quality assurance program will be put into place.

If you have any questions, please contact this office at (865) 588-5656.

Sincerely,

*Faye Vance*

Faye Vance, R.N., B.S., M.S.N.  
 Public Health Nurse Consultant Manager

PRINTED: 01/10/2008  
FORM APPROVED

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 77 - LICENSURE B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
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NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC	STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404
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(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) DATE COMPLETE DATE
H 871	<p>1200-8-1-08 (1) Building Standards</p> <p>(1) The hospital must be constructed, arranged, and maintained to ensure the safety of the patient.</p> <p>This Rule is not met as evidenced by: Based on observation and interview, the facility failed to assure smoke and fire barrier ratings are maintained.</p> <p>The findings include:</p> <p>Observation and interview with the maintenance staff, on January 7 and 8, 2008 between 11:00 a.m. and 1:30 p.m. revealed unsealed penetrations in the following areas:</p> <ol style="list-style-type: none"> <li>1) 5th floor electrical closet (room 0056) ceiling</li> <li>2) 5th floor above stairwell door near electrical closet (room 0056).</li> <li>3) 2nd floor above fire door near room 228</li> <li>4) Above Stairwell fire door near stairwell "D" information desk (three (3) large sprinkler penetrations)</li> <li>5) 100 North Generator room</li> <li>6) Third Floor Tel-Com closet</li> </ol> <p>NFPA 80, 3-4.2 Coordinating Devices Where there is an astragal or projecting latch bolt that prevents the inactive door of a pair of doors from closing and latching before the active door closes and latches, a coordinating device shall be used. A coordinating device shall not be required where each door closes and latches independent of the other door.</p> <p>Based on observation and interview, the facility failed to assure corridor fire doors were provided</p>	H 871	<p>Electrical closet (room 0056) ceiling completed by Work Order MH115038 (Tony Trowser)</p> <p>5th floor above stairwell door (room 0056) completed by Work Order MH115045 (Kenny Wright)</p> <p>2nd floor above fire door (near rm. 228) completed by Work Order MH115045 (Kenny Wright)</p> <p>Three large sprinkler penetrations near Stairwell D Information Desk completed by Work Order MH115039 (Tony Trowser)</p> <p>Fire Stop Penetrations in 100 North generator room to be corrected by Work Order MH115041 (David Allen)</p> <p>Fire Stop Penetrations on third floor TelCom room completed by Work Order MH115048 (Kenny Wright)</p> <p>4 South fire door (S-455) -- the astragal will be removed and an approved seal for door was installed. Work Order MH114846 (Richard Wright/ Gene Maye)</p>	<p>1/10/08</p> <p>1/21/08</p> <p>1/21/08</p> <p>1/10/08</p> <p>2/17/08</p> <p>1/21/08</p> <p>1/23/08</p>

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

STATE FORM

0099

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10K121

TIME

Interim Pres. &amp; CEO

(X6) DATE

2-8-2008

If continuation sheet 1 of 6

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 77 - LICENSURE B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 871	<p>Continued From page 1</p> <p>with a coordinating device.</p> <p>The findings include:</p> <p>Observation and interview with the Security Director, on January 7, 2008 at 2:25 p.m. revealed the 4 South fire door (S-455) was missing a coordinating device.</p> <p>Based on observation and interview, the facility failed to assure exits paths were lighted.</p> <p>The findings include:</p> <p>Observation and interview with the Security Director, on January 8, 2008 at 10:30 a.m. confirmed the SICU stairwell lights were not working on the 2nd floor.</p> <p>Based on record review, the facility failed to assure the sprinkler system obstruction investigation was performed. (NFPA 25, 13.2.1)</p> <p>The findings include:</p> <p>Record review of the 8-15-2007 and 11-14-2007 sprinkler system reports on January 8, 2008 at 8:30 a.m. indicated the 5-year obstruction investigation and gauge maintenance has not been performed.</p> <p>Based on observation and interview, the facility failed to assure the sprinkler system piping was not used to support non-system components.</p>	H 871	<p>Lights have been replaced in the SICU stairwell on 2nd floor by Work Order MH115043 (Tony Trowser/Kenny Wright)</p> <p>5-yr obstruction and gauge maintenance has been contracted and will take six weeks to schedule and complete. To be done by International Fire, Work Order MH115040. (David Allen) will complete the testing.)</p>	<p>1/11/08</p> <p>3/6/08</p>

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STATE FORM

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If continuation sheet 2 of

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 77 - LICENSURE B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 871	<p>Continued From page 2 (NFPA 13, 9-1.1.7)</p> <p>The findings include:</p> <p>Observation and interview with the security director, in the corridor, on January 8, 2008 at 12:30 p.m. confirmed wiring above the lay in ceiling was attached to or supported by sprinkler piping in the following areas:</p> <ol style="list-style-type: none"> <li>1) 2nd floor above the south medicine room</li> <li>2) 2 south above the janitors closet near "A" elevators</li> <li>3) 2nd floor above ceiling by stairwell door by elevator "D" information desk</li> <li>4) above the back hall ceiling to CCU</li> <li>5) Basement Biomed corridor</li> <li>6) First floor at one central</li> <li>7) Two central at patient room 227</li> </ol> <p>NFPA 70, 720-11. Mechanical Execution of Work Circuits operating at less than 50 volts shall be installed in a neat and workmanlike manner. Cables shall be supported by the building structure in such a manner that the cable will not be damaged by normal building use.</p> <p>Based on observation and interview, the facility failed to assure low voltage wiring was supported by structure.</p> <p>The findings include:</p> <p>Observation and interview with the Maintenance Director, on January 8, 2008 at 1:25 p.m. confirmed low voltage wiring and cables were laying on ceiling tiles and not supported by structure in the 200 hall by rooms 226 to 236 and in the back circular hall of CCU.</p>	H 871	<p>Wiring above lay in ceiling supported by sprinkler piping:</p> <p>2nd floor above south medicine room--- wire will be removed and properly supported by the structure by Work Order MH115053 (David Allen)</p> <p>Wire on 2 South above the janitor's closet near "A" elevator will be removed and properly supported by the structure by Work Order MH113734 (David Allen)</p> <p>2nd floor wiring above ceiling by stairwell door by elevator "D" will be removed and properly supported by the structure through Work Order MH115055.</p> <p>Wiring above the back hall ceiling by CCU will be removed and properly supported by Work Order MH113735.</p> <p>Wire supported by sprinkler line in the basement Bio-med corridor will be removed and properly supported by the structure through Work Order MH115056. (David Allen)</p> <p>Wire supported by sprinkler line on First floor at one Central will be removed and properly supported by the structure through Work Order MH115057. (David Allen)</p> <p>Wire supported by sprinkler line on two Central at patient room 227 will be corrected through Work Order MH113733. (David Allen)</p> <p>All wiring on the ceiling on the 200 hall from room 226 to 236 will be properly supported by structure through Work Order MH113733.</p> <p>All wiring in the ceiling in the back hall of CCU will be properly supported by structure through Work Order MH113735. (David Allen)</p>	<p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p>

Division of Health Care Facilities  
STATE FORM

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(If continuation sheet 3 of 1)

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING - 77 - LICENSURE B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 893	<p>1200-8-1-.08 (23) Building Standards</p> <p>(23) A negative air pressure shall be maintained in the soiled utility area, toilet room, janitor's closet, dishwashing and other such soiled spaces, and a positive air pressure shall be maintained in all clean areas including, but not limited to, clean linen rooms and clean utility rooms.</p> <p>This Rule is not met as evidenced by: Based on observation and interview, the facility failed to assure soiled linen storage areas were well ventilated and maintained under a relative negative air pressure.</p> <p>The findings include: Observation and interview with the Security Director on January 8, 2008 at 10:30 a.m. confirmed the 4 east housekeeping closet and SICU dirty utility room was not maintained under a negative pressure.</p> <p>Based on observation and interview, the facility failed to assure clean linen storage areas were well ventilated and maintained under a relative positive air pressure.</p> <p>The findings include: Observation and interview with the Security Director on January 7, 2008 at 11:40 a.m. confirmed there was no ventilation in the 4 east clean linen supply rooms across from rooms 329 and 205.</p> <p>Observation and interview with director of plant</p>	H 893	<p>4 East Housekeeping closet will be checked and correction made to maintain negative pressure. (David Allen)</p> <p>SIC dirty utility room will be checked and corrections made to maintain a negative pressure through Work Order MHI13705 (David Allen)</p> <p>The clean linen supply room on 4 East will be checked and corrected to maintain a positive pressure through Work Order MHI13700. Waiting on parts. (David Allen)</p> <p>The clean linen supply room across from room 329 will be checked and corrected to maintain a positive pressure through Work Order MHI13700. Waiting on parts. (David Allen)</p> <p>The clean linen supply room across from room 205 will be checked and corrected to maintain a positive pressure through Work Order MHI13701. (David Allen)</p>	<p>1/17/08</p> <p>2/17/08</p> <p>2/17/08</p> <p>2/17/08</p>

Division of Health Care Facilities  
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If continuation sheet 4 of 6



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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 77 - LICENSURE B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H 893	Continued From page 4 operations on January 7, 2008 11:00 a.m. confirmed there was no ventilation in the following clean linen areas:  1) One south corridor clean linen closet. 2) Third floor east clean linen closet. 3) Two central clean linen closet.	H 893	Ventilation will be corrected in the 1. South corridor clean linen closet to maintain positive pressure through Work Order MH113701.  Ventilation will be corrected in the Third floor east clean linen closet through Work Order MH113701 to maintain positive pressure.  Ventilation will be corrected in 2 Central clean linen closet to maintain positive pressure through Work Order MH113701.	2/17/08  2/17/08  2/17/08
H 902	1200-8-1-.09 (2) Life Safety  (2) The hospital shall provide fire protection by the elimination of fire hazards, by the installation of necessary fire fighting equipment and by the adoption of a written fire control plan. Fire drills shall be held at least quarterly for each work shift for hospital personnel in each separate patient-occupied hospital building. There shall be a written report documenting the evaluation of each drill and the action recommended or taken for any deficiencies found. Records which document and evaluate these drills must be maintained for at least three (3) years. All fires which result in a response by the local fire department shall be reported to the department within seven (7) days. The report shall contain sufficient information to ascertain the nature and location of the fire, its probable cause and any injuries incurred by any person or persons as a result of the fire. Initial reports by the facility may omit the name(s) of patient(s) and parties involved, however, should the department find the identities of such persons to be necessary to an investigation, the facility shall provide such information.  Authority: T.C.A. §§4-5-202, 4-5-204, 68-11-202, 68-11-204, 68-11-206, 68-11-209, and 68-11-216.	H 902		

Division of Health Care Facilities  
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If continuation sheet 5 of 6

Division of Health Care Facilities  
STATE FORM



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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 70 - NORTH PARK HOSPITAL B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC.		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H 871	<p>1200-8-1-.08 (1) Building Standards</p> <p>(1) The hospital must be constructed, arranged, and maintained to ensure the safety of the patient.</p> <p>This Rule is not met as evidenced by: North Park Hospital, 2051 Hamill Road, Hixson, TN 37343</p> <p>NFPA 101, 2003 Edition 9.1.6.4 Health care occupancies shall be limited to the types of building construction shown in Table 19.1.6.4, unless otherwise permitted by 19.1.6.5. (See 8.2.1): Type II(111), Three stories: Building requires automatic sprinkler protection. (See 19.3.5.1) 19.3.5.1 Where required by 19.1.6, health care facilities shall be protected throughout by an approved, supervised automatic sprinkler system in accordance with Section 9.7, unless otherwise permitted by 19.3.5.3. 9.7.1 Automatic Sprinklers. 9.7.1.1 Each automatic sprinkler system required by another section of this Code shall be in accordance with one of the following: (1) NFPA 13, Standard for the Installation of Sprinkler Systems. NFPA 13, 2002 Edition, 8.14.7.4 Sprinklers shall be installed under roofs or canopies over areas where combustibles are stored and handled.</p> <p>Based on observation, the facility failed to assure the exterior roof over an area where combustibles are stored and handled is provided with sprinkler coverage.</p> <p>The findings include:</p> <p>Observation and interview with the maintenance supervisor on January 7, 2008, at 2:00 p.m., on</p>	H 871	<p>Checked area and installed appropriate fire protection in the loading dock area through Work Order MHI15067.</p> <p>Scheduled and replaced sprinkler heads on each side of kitchen hood through Work Order MHI15044 and MHI15065.</p>	<p>3/6/08</p> <p>1/22/08</p>

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

STATE FORM

6609

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10K121

TITLE

Intervenor Pres + CEO

(X6) DATE

2/8/2008

If continuation sheet 1 of

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING 70 - NORTH PARK HOSPITAL B. WING _____	(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 871	<p>Continued From page 1</p> <p>the back loading dock, confirmed the back loading dock with bins from laundry collection and cardboard materials is not provided with sprinkler coverage.</p> <p>NFPA 25, 2002 Edition 5.2.1.1.1 Sprinklers shall not show signs of leakage; shall be free of corrosion, foreign materials, paint, and physical damage; and shall be installed in the proper orientation (e.g., upright, pendent, or sidewall). 5.2.1.1.2 Any sprinkler shall be replaced that has signs of leakage; is painted, corroded, damaged, or loaded; or in the improper orientation.</p> <p>Based on observation, the facility failed to assure the sprinklers are replaced when showing signs of corrosion.</p> <p>The findings include:</p> <p>Observation and interview with the maintenance supervisor on January 7, 2008, at 3:30 p.m., confirmed the two sprinkler heads, located on each side of the kitchen hood, show signs of corrosion.</p> <p>NFPA 25, 2002 Edition 5.2.1.3 The supply of spare sprinklers shall be inspected annually for the following: (1) The proper number and type of sprinklers, (2) A sprinkler wrench for each type of sprinkler. 5.2.7 Hydraulic Nameplate. The hydraulic nameplate for hydraulically designed systems shall be inspected quarterly to verify that it is attached securely to the sprinkler riser and is legible.</p> <p>Based on observation, the facility failed to assure the riser room located in the main mechanical</p>	H 871	<p>Purchase spare sprinkler heads for each type in the facility and the proper wrenches through Work Order MH1150651</p> <p>Get the proper data label for the main riser through Work Order MH115071 (David Allen)</p>	<p>2/17/08</p> <p>3/17/08</p>

Division of Health Care Facilities  
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If continuation sheet 2 of 3

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53471	(X2) MULTIPLE CONSTRUCTION A. BUILDING 70 - NORTH PARK HOSPITAL B. WING _____		(X3) DATE SURVEY COMPLETED  01/08/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC			STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE	
H 871	<p>Continued From page 2</p> <p>room is provided with a supply of spare sprinklers of the proper type and number as well as a wrench for each type. Observation continued to reveal, the facility failed to assure the hydraulic data plate is provided and attached to the riser.</p> <p>The findings include:</p> <p>Observation and interview with the maintenance supervisor on January 7, 2008, at 2:20 p.m., confirmed the riser room in the main mechanical room is not provided with a supply of spare sprinklers and wrench for each type of sprinkler and the riser is not provided with the hydraulic data plate attached.</p> <p>NFPA 25, 2002 Edition . 12.3 Control Valves in Water-Based Fire Protection Systems. 12.3.1.2 Each normally open valve shall be secured by means of a seal or a lock or shall be electrically supervised in accordance with the applicable NFPA standards.</p> <p>Based on observation, the facility failed to assure the control valve normally open for the sprinkler system is locked or electrically supervised.</p> <p>The findings include:</p> <p>Observation and interview with the maintenance supervisor on January 7, 2008, at 11:05 a.m., confirmed the control valve in the pit adjacent to the PIV for the recently installed sprinkler system is not provided with a means of locking in the open position and is not electrically supervised.</p>	H 871	Get proper locking mechanism to secure the valve in the pit through Work Order #H115052 (David Allen responsible)	1/24/08	

Division of Health Care Facilities  
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If continuation sheet 3 of

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
P 001	1200-8-30 Initial  This Rule is not met as evidenced by: For the purpose of facility identification, the main facility, located in Chattanooga, and known as Memorial Healthcare Systems, shall be identified as facility A; and the satellite facility, located in Hixson, and known as Memorial North Park, shall be identified as facility B.	P 001	See attached corrective action plan and supporting documentation.	
P 313	1200-8-30-.03 (1)(j)2. Administration  (1) The hospital administration shall provide the following:  (j) Incorporation into the hospital existing quality assessment and improvement program, a review of the following pediatric issues and indicators:  2. incident reports; This Rule is not met as evidenced by: Based on review of the facility "B" Emergency Department's Pediatric Facility Notebook, and interview, the facility failed to incorporate required pediatric issues into the Committee of Quality Improvement program.  The findings included:  Review of the facility A Committee for Quality Improvement (CQI) records revealed the facility had no ongoing documentation of Pediatric issues. Interview with the Vice President of Corporate Responsibility and the Director of the Admission Unit in the board room, on January 9, 2008, at 11:00 a.m., confirmed the facility had no ongoing documentation of Quality Assessment and Performance Improvement for pediatrics.	P 313	See attached	2/24/08

Vision of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

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If continuation sheet 1 of 3

JAN 24 2008

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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P 313	Continued From page 1  Review of the Facility "B" Pediatric Facility Notebook (PFN) with the Clinical Educator and Interim ED Coordinator in the Emergency Department (ED) on January 8, 2008, at 10:00 a.m., revealed the PFN does not contain tracking of pediatric issues other than pediatric transfers. Interview with the Clinical Educator January 9, 2008, at 9:00 a.m., in the conference room confirmed the facility failed to incorporate required pediatric issues into the Committee of Quality Improvement program.	P 313		
P 526	1200-8-30-.05 (4)(e) Basic Functions  (4) Facility Structure and Equipment.  (e) An emergency cart or other systems to organize supplies including resuscitation equipment, drugs, printed pediatric drug doses and pediatric reference materials must be readily available. Equipment, supplies, trays, and medications shall be easily accessible, labeled and logically organized. Antidotes necessary for a specific geographic area should be determined through consultation with a poison control center. If the listed medications are not kept in the emergency department, they should be kept well organized and together in a location easily accessible and proximate to the emergency department. This Rule is not met as evidenced by: Based on observation and interview, the facility "B" failed to assure supplies in the Emergency Department were maintained within the expiration date for the Pediatric Emergency cart in trauma room #3.  The findings included:	P 526	see a Hacheel	2/15/08

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If continuation sheet 2 of 3

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P 526	Continued From page 2  Observation in the ED of facility A, with the Vice President of Corporate Responsibility and the Nurse Educator, on January 7, 2008, between 1:30 p.m. and 3:00 p.m., revealed the location of the required pediatric emergency supplies/equipment took more than two hours. Interview with the Vice President of Corporate Responsibility and the Nurse Educator, on January 7, 2008, at 3:00 p.m., confirmed the required pediatric emergency supplies and equipment were not well organized and easily accessible. Observation of the facility A Emergency Department (ED) on January 8, 2008, at 8:30 a.m., revealed trauma room #3 contained the pediatric emergency cart. Observation of the cart revealed a Single Lumen Central Venous Catheterization kit with expiration date of October 2007. Interview with the Clinical Educator on January 8, 2008, at 8:50 a.m., confirmed the facility failed to assure the supplies on the pediatric emergency cart were maintained within the expiration date.	P 526			

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STATE FORM

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If continuation sheet 3 of 3

JAN 24 2008



State Licensure Survey – January 2008  
Plan of Correction

Team Leader Submitting Plan: Marilyn Muncy & Jan Woods

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Complete Date
1200-8-30.03(1)(j)	(j) Incorporation into the hospital existing quality assessment and improvement program, a review of the following pediatric issues and indicators: deaths; incident reports, child abuse cases, cardiopulmonary or respiratory arrests, admission within 48 hours after being discharged from an emergency department, surgery within 48 hours after being discharged from an emergency department, quality indicators requested by the Comprehensive Regional Pediatric Center or state/local Emergency Medical Services for Children authority regarding nursing care, physician care, prehospital care and the medical direction for pre-hospital providers of Emergency Medical Services systems, pediatric transfers and pediatric inpatient illness and injury outcome data.	<p>1. Reports;</p> <ul style="list-style-type: none"> <li>Report developed in Meditech to capture all visits including inpatient visits for all patients under 18 years of age as defined by the State of TN regulations</li> <li>Data will be reflected on the ED CQI scorecards for each institution and reported at each meeting</li> <li>Data will be added to the Quarterly Quality Scorecard in order that the information be funneled on through to the Board level</li> <li>The Glenwood Campus will work to interface with Children's Hospital to assure a transfer report is generated by Children's and received by Memorial Glenwood on any patient transfers to reflect any quality of care concerns related to management of patient care by Memorial. This is already in place at MNP.</li> <li>All Pediatric cases will be</li> </ul>	<p>Completed 1/18/08 Attachment 1</p> <p>Completed 1/15/08 Attachment 2</p> <p>Nan Payne Attachment 2</p> <p>Jan Woods will meet with Marisa Moyers CRPC Coordinator. Meeting date pending and attend the task force meeting: next scheduled date 2/21/08</p> <p>Nan Payne</p>

		<p>reviewed by Quality Department for events requiring review as outlined on the attached scorecard, including patient complaints/incident reports, those falling into the categories noted will be forwarded on to the physicians on the Emergency Department CQI committees for appropriate management and quality of care as outlined on attached scorecard</p> <ul style="list-style-type: none"> <li>• All Pediatric transfers (as noted on the scorecard) will be reviewed by the Chief of Pediatrics and reported through ED CQI to assure quality care was provided prior to transfer and transfer was appropriate.</li> <li>• All incident reports that involve pediatric patients will be reviewed by the Chief of Pediatrics and reported through ED CQI as noted on the attached scorecard</li> </ul> <p>An inpatient Meditech report for all patients under the age of 18 years of age is in place and will be set for a monthly print out to provide timely review of care and cases based on any complications in care based on complication codes (999 codes) as is consistent with the other patient populations, in addition to the indicators reflected on the ED scorecard.</p>	<p>Beginning with Jan. 08 pediatric log Attachments 1 &amp; 2</p> <p>Nan Payne Attachment 2</p> <p>Nan Payne Attachment 2</p> <p>Nan Payne by 2/18/08</p>
--	--	---	---



		This report will include discharge status of the patient.	
1200-8-30-05(4)(e)	An emergency cart or other systems to organize supplies including resuscitation equipment, drugs, printed pediatric drug doses and pediatric reference materials must be readily available. Equipment, supplies, trays and medications shall be easily accessible, labeled and logically organized. Antidotes necessary for a specific geographic area should be determined through consultation with a poison control center. If the listed medications are not kept in the emergency department they should be kept well organized and together in a location easily accessible and proximate to the emergency department	<ul style="list-style-type: none"> <li>• "Magic Carpet" Bags (Braslow bags) have been obtained for airway management for each pediatric code cart. Color coded according to appropriate use in the specific pediatric patient</li> <li>• The Pediatric crash cart drawers will be color coded to coincide with the Magic Carpet bags</li> <li>• Respiratory Care will manage crash cart needs (including having staff nurses involved in the planning of the contents of carts and the stocking of the carts).</li> <li>• Policy review with Resp. staff for management of expired supplies on the pediatric code cart.</li> </ul>	<p>Attachment 3 is an example Jacqueline Potter Bags arrived 1/22/08 will be filled and staff education completed by 2/8/08</p> <p>Jacqueline Potter and Penny Milligan will work together to organize crash cart and pediatric supplies in an organized manner by 2/15/08. Drawer dividers and colored tape are on order. Policy #PUL 1901 Attachment 4</p> <p>Mel Howard by 1/31/08 Policy # PUL 1901 Attachment 4</p>

		<ul style="list-style-type: none"> <li>• An increase in mock pediatric codes will occur to include a critique done by Children's hospital appropriate staff.</li> <li>• Location of antidotes necessary for poison control management in our region will be obtained and included in a notebook that will be "chained" to each pediatric code cart with a phone number for poison control in the event direct contact is necessary</li> </ul>	<p>Jan Woods and Marisa Moyers CRPC Coordinator, date pending.</p> <p>Marilyn Muncy by 2/15/08 See attachment 5 for initial contact with poison control center.</p>
Division of health Care Facilities		Title	Date
Laboratory Director's or Provider/Supplier Representative's Signature			
State Form		59UW11	

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H 001	1200-8-1 Initial  This Rule is not met as evidenced by: For the purpose of facility identification, the main facility, located in Chattanooga, and known as Memorial Healthcare Systems, shall be identified as facility A; and the satellite facility, located in Hixson, and known as Memorial North Park, shall be identified as facility B.	H 001	See attached Statement of Deficiencies and Corrective Action Plan	
✓ H 403	1200-8-1-.04 (3) Administration  (3) When licensure is applicable for a particular job, the number and renewal number of the current license must be maintained in personnel. Each personnel file shall contain accurate information as to the education, training, experience and personnel background of the employee. Adequate medical screenings to exclude communicable disease shall be required of each employee.  This Rule is not met as evidenced by: Based on facility record review and interview, facility A failed to assure adequate medical screening for Hepatitis B vaccination was documented for 3 of 15 personnel files reviewed and failed to provide training regarding safe disposal of chemotherapy waste for six of six housekeeping staff.  The findings included:  Record review of the personnel health files revealed no documentation of Hepatitis B vaccine administration or a signed declination statement of the Hepatitis B vaccination for three employees who were subject to exposure to the Hepatitis B virus by way of blood products or patient blood.	H 403	See attached	01-25-08

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

INT Pro/CEO

TITLE

(X6) DATE

Cover letter dated 4-24-08 KK

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JAN 25 2008

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H 403	Continued From page 1  Interview with the Employee Health Nurse, in the conference room, on January 9, 2008, at 10:10 a.m., confirmed the employees were at risk for exposure to the Hepatitis B virus and had not been given the opportunity to accept or decline the Hepatitis B vaccine.  Interview with the director of the infusion unit in the corridor of the infusion unit on January 7, 2008, at 11:30 a.m., revealed housekeeping staff disposed of chemo-therapy related waste materials and had been trained for proper waste disposal. Interview with Registered Nurse (RN) #2 on January 8, 2008, at 12:52 p.m., revealed Housekeeper #1 routinely performed chemotherapy waste disposal for the unit and Housekeeper #2 filled in when Housekeeper #1 was unavailable. Interview with the director of supply chain operations in his office on January 7, 2007, at 3:15 p.m., revealed the facility currently trained any staff who may be asked to dispose of chemotherapy waste in the proper disposal of the waste materials. Interview with an environmental services secretary in the environmental services office on January 7, 2008, at approximately 3:30 p.m., revealed four of six housekeepers hired in the last six months worked at Facility A. Personnel file review revealed neither of the four housekeepers had been trained regarding disposal of chemotherapy waste prior to January 7, 2008. Personnel file review of Housekeeper #1 revealed no documentation regarding training on disposal of chemotherapy waste materials prior to January 7, 2008. Personnel file review of Housekeeper #2, revealed no documentation regarding training on disposal of chemotherapy waste. Interview with Housekeeper #2 in a room on the infusion unit on January 8, 2008, at 1:00 p.m., revealed	H 403		

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(If continuation sheet 2 of 13)

JAN 25 2008

H403

**Action Plan for Environmental Services Chemo Therapy Training****Jan. 24, 2007****Issue:**

Recent inspection by the State revealed deficiencies in the training of Environmental Services Training regarding the proper handling and transportation of chemo therapy waste.

**Action Plan:**

1. **Plan:** Evaluate current methods of transportation of chemo waste.  
**Result:** Evaluation of Environmental Services methods of chemo transportation revealed three Floor Techs and their relief were responsible to transporting the closed chemo bin from Infusion, Pharmacy, and Oncology. Housekeepers not responsible to handing of chemo waste. The decision was made to streamline this process whereby one first shift floor tech and their relief to be responsible for the collection and transportation of chemo waste. This decision to be presented to and approved by the Chemo Committee to meet on Jan. 31, 2008.
2. **Plan:** Evaluate current Environmental Services training program.  
**Result.** All Environmental Services personnel to receive specific training on the proper handing and transportation of chemo waste. As of today, all Environmental Services personnel have been trained on proper handing and transportation of chemo therapy waste. The methods and scope of this training to be presented to and approved by the Chemo Committee to meet on Jan. 31, 2008.

  
Dennis Wallace, Director of Environmental Services

JAN 25 2008

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NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404	

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H 403	Continued From page 2  Housekeeper #2 was unable to explain how to dispose of chemotherapy waste materials. Interview with Registered Nurse #1 in an administrative office on January 9, 2008, at 10:15 a.m., confirmed six of six housekeepers had not been trained regarding safe disposal of chemotherapy waste materials.	H 403		
J H 609	1200-8-1-.06 (1)(d) Basic Hospital Functions  (1) Performance Improvement.  (d) The hospital must develop and implement plans for improvement to address deficiencies identified by the performance improvement program and must document the outcome of the remedial action.  This Rule is not met as evidenced by: Based on observation, review of facility policy, review of a personnel file, and interview, the facility failed to implement plans to improve an identified deficiency related to transportation of medication by volunteers on one unit (infusion center) of eleven units at Facility A.  The findings included:  Interview with the director of the infusion center in the corridor of the infusion center on January 7, 2008, at approximately 11:30 a.m., revealed facility volunteers transported medications, including chemotherapy agents. Random observation in the pharmacy on January 7, 2008, at 1:45 p.m., revealed a facility volunteer transported intravenous medication in her bare hand. Interview with the volunteer in the pharmacy on January 7, 2008, at 1:45 p.m.,	H 609	See attached	01-28-08

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JAN 25 2008

State Licensure Survey – January 2008  
Plan of Correction

H609

Team Leader Submitting Plan: Lanell Jacobs and Melissa Roden

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Completion Date
	<p>1200-8-1-.06(1)(d)</p> <p>The hospital must develop and implement plans for improvement to address deficiencies identified by the performance improvement program and must document the outcome of the remedial action.</p> <p>This Rule is not met as evidenced by: Based on observation, review of facility policy, review of a personnel file, and interview, the facility failed to implement plans to improve an identified deficiency related to transportation of medication by volunteers on one unit (infusion center) of eleven units at Facility A.</p> <p>The findings included: Interview with the director of the infusion center in the corridor of the infusion center on January 7, 2008, at approximately 11:30 am, revealed facility volunteers transported medications, including chemotherapy agents. Random observation in the pharmacy on January 7, 2008 at 1:45 pm, revealed a facility volunteer transported intravenous medication in her bare hand. Interview with the volunteer in the pharmacy on January 7, 2008 at 1:45 pm, revealed the volunteer transported medication including chemotherapy, and the facility had provided no training to the volunteer. Review of the volunteer's personnel file revealed, "Outpatient Infusion Volunteer Job Description... Medication and Lab Transportation Guidelines: Always transport medication in the designated container..." Review of facility policy number: NSG-POL-03117, revealed, "...The chemotherapy certified RN (registered nurse) caring for the patient will pick up the medication from the pharmacy and check the orders against the label with the pharmacist..." Interview with RN #1 in the Environmental Services office on January 7,</p>	<p>Action Plan:</p> <ol style="list-style-type: none"> <li>1. Define standard for transport of chemotherapy agents and update current Chemotherapy Management and Administration Policy (NSG-POL-03117) for necessary revisions. Updated language defined by Chemo Work Group reflects: <i>"Chemotherapy can be transported from the pharmacy to the unit/department by staff or volunteers who have received training in transport procedure including what to do in the event of a spill. When staff or volunteer transport the chemotherapy they must use the appropriate secure container to provide double containment during transport. A spill kit must also be available during transport. When the chemotherapy arrives in the unit/department an RN must place the chemotherapy in a secure location."</i></li> <li>2. Purchase transport containers by Materials Management for all locations administering chemo (Infusion Center, 400 East Oncology, Unit 2 Oncology / Infusion at MNP, Operating Room)</li> <li>3. Infusion Center volunteers educated by Infusion Center Director / Charge Nurse in proper procedure for transport of chemotherapy agents.</li> <li>4. Infusion Center associates educated by Director on updated policy requirements as outlined in NSG-POL-03117 Chemotherapy Management and Administration.</li> <li>5. Pharmacy associates educated by Pharmacy leadership on updated policy requirements as outlined in NSG-POL-03117 with focus on page 2, item 3 "The</li> </ol>	<p>1/21/2008</p> <p>In place 1/10 for Infusion</p> <p>1/25/2008 – all other areas</p> <p>1/18/2008</p> <p>1/23/2008</p> <p>1/23/2008</p>

	<p>2008, at approximately 3:40 pm, revealed the facility had identified transportation of medications by the volunteer as an area for improvement. Interview with the director of the Pharmacy in an administrative office on January 9, 2008 at 10:10 am, revealed transporting the intravenous medication in a bare hand violated facility policy. Interview with RN #1 in an administrative office, on January 9, 2008, at 9:40 am, revealed the facility had identified the matter regarding transportation of medications by volunteers and addressed the matter through the facility's quality improvement program for at least seven months. Continued interview with RN #1 confirmed the facility had failed to implement plans to address the facility's concerns regarding transportation of medications by volunteers as of January 9, 2008.</p>	<p><i>pharmacist will verify the correct agent, route, dosage and prepare medication. The pharmacy personnel will secure the medication in the appropriate container for transport to the department."</i></p> <p>6. One chemo transport observation per week for 6 weeks will be conducted by the Director of Infusion and / or Patient Safety Officer to monitor compliance with policy NSG-POL-03117 Chemotherapy Management and Administration.</p> <p>7. Memorial Health Care System Leadership Forum attendees will receive educational presentation by VP Quality at monthly meeting specifically addressing performance improvement methodology, addressing deficiencies identified by the performance improvement program and documentation of actions taken to improve deficiencies.</p>	<p>Weekly with report due to Quality Safety Committee 2/19/08</p> <p>1/28/2008</p>
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H 609	Continued From page 3  revealed the volunteer transported medications including chemotherapy, and the facility had provided no training to the volunteer. Review of the volunteer's personnel file revealed, "Outpatient Infusion Volunteer Job Description... Medication and Lab Transportation Guidelines: Always transport medications in the designated container..." Review of facility policy number: NSG-POL-03117, revealed, "...The chemotherapy certified RN (registered nurse) caring for the patient will pick up the medication from the pharmacy and check the orders against the label with the pharmacist..." Interview with Registered Nurse #1 in the Environmental Services office on January 7, 2008, at approximately 3:40 p.m., revealed the facility had identified transportation of medications by the volunteer as an area for improvement. Interview with the director of the pharmacy in an administrative office on January 9, 2008, at 10:10 a.m., revealed transporting the intravenous medication in a bare hand violated facility policy. Interview with Registered Nurse #1 in an administrative office, on January 9, 2008, at 9:40 a.m., revealed the facility had identified the matter regarding transportation of medications by volunteers and addressed the matter through the facility's quality improvement program for at least seven months. Continued interview with RN #1 confirmed the facility had failed to implement plans to address the facility's concerns regarding transportation of medications by volunteers as of January 9, 2008.	H 609		
JH 642	1200-8-1-.06 (3)(f) Basic Hospital Functions  (3) Infection Control.  (f) The facility shall have an annual influenza vaccination program which shall include at least:	H 642	See attached	01-15-08

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H 642	<p>Continued From page 4</p> <ol style="list-style-type: none"> <li>1. The offer of influenza vaccination to all staff and independent practitioners or accept documented evidence of vaccination from another vaccine source or facility;</li> <li>2. A signed declination statement on record from all who refuse the influenza vaccination for other than medical contraindications;</li> <li>3. Education of all direct care personnel about the following: <ul style="list-style-type: none"> <li>(i) Flu vaccination,</li> <li>(ii) Non-vaccine control measures, and</li> <li>(iii) The diagnosis, transmission, and potential impact of influenza;</li> </ul> </li> <li>4. An annual evaluation of the influenza vaccination program and reasons for non-participation;</li> <li>5. The requirements to complete vaccinations or declination statements are suspended by the Medical Director in the event of a vaccine shortage.</li> </ol> <p>This Rule is not met as evidenced by: Based on facility record review and interview, facility A failed to assure a signed declination statement, of the Influenza (Flu) vaccination, was documented for 1 of 15 employee files reviewed.</p> <p>The findings included:</p>	H 642		

Division of Health Care Facilities  
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(If continuation sheet 5 of 13)

JAN 25 2008

State Licensure Survey – January 2008  
Plan of Correction

H642

Team Leader Submitting Plan: Brad Pope and Kaye Lewis

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Responsible Person	Completion Date
	1200-8-1-.06(3)(2)	<p>Action Plan:</p> <ol style="list-style-type: none"> <li>1. Review of all associates status of Flu Vaccine.(report attached)</li> <li>2. Flu Vaccination notices and declinations sent to associates and directors.(example attached)</li> <li>3. Deadline for receiving vaccination or signing declination given.</li> <li>4. If not completed by February 6, 2008, names will be sent to Vice President, if not completed by February 15, 2008 the associate will be removed from duty.(example attached)</li> <li>5. New Hire associates will be offered Flu vaccination at time of physical. Vaccination or Declination will be done at this time. This will continue through February 2008 for all associates.</li> </ol>	<p>Kaye Lewis</p> <p>Kaye Lewis</p> <p>Kaye Lewis</p> <p>Cathy Messier</p>	<p>1/18/2008</p> <p>1/23/2008</p> <p>2/6/2008</p> <p>2/15/2008</p> <p>1/18/2008 through end of February</p>

JAN 25 2008

		<p>5. New process established to review prior week files on Fridays and Mondays for completion. List of those outstanding given to New Employee Orientation Coordinator on date of orientation for associate to report to employee health on that date for completion.</p> <p>6. If associate has not completed requirement within 10 days of start date they will be removed from duty until completed.</p>	<p>needing further action (attached)</p>
		Kaye Lewis	1/25/2008 and ongoing
		Kaye Lewis	1/25/2008 and ongoing

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H 642	Continued From page 5  Record review of facility personnel health files revealed one employee file had no documentation of Flu vaccine administration or a signed declination statement of the Flu vaccination for one employee who had direct contact with patients. Interview with the Employee Health Nurse, in the conference room, on January 9, 2008, at 10:10 a.m., confirmed the employee was at risk for exposure to the Flu virus and had not been given the opportunity to accept or decline the Flu vaccine.	H 642		
✓ H 683	1200-8-1-.06 (4)(j) Basic Hospital Functions  (4) Nursing Services.  (j) All drugs, devices and related materials must be administered by, or under the supervision of, nursing or other personnel in accordance with federal and state laws and regulations, including applicable licensing requirements, and in accordance with the approved medical staff policies and procedures.  This Rule is not met as evidenced by: Based on review of hospital policies and procedures, observation, and interview facility "B" failed to 1) secure medications on two out of two general nursing units and 2) maintain supplies in the Emergency Department within the expiration date for two of three trauma rooms observed. (Please refer to 1200-8-30-.05; trauma room #3 is referred to for pediatrics.) The findings included:  1) Review of the hospital's policy/procedure entitled Medication Storage Areas revealed the following: "Medication carts and cabinets must be	H 683	See attached	2-17-08

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STATEMENT OF DEFICIENCIES ID PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC			STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 683	Continued From page 6  locked when not in use." Observation of the second floor nursing station with the charge nurse (RN#1) on January 7, 2008, at 11:40 a.m., revealed 2 medication carts sitting unattended at the nursing station. Observation continued and RN#1 opened each unlocked cart and revealed patient medications in several drawers. Observation of the second floor nursing station on January 7, 2008, at 2:30 p.m., revealed 2 medication carts sitting unattended at the nursing station. Interview at the time of the observation revealed a registered nurse (RN #2) entered the station and verified both medication carts were unlocked and contained patient medications. Interview with RN #2 revealed the statement, "I didn't know they had to be locked when they were in the nurses station." Interview in the nursing station with the director of nurses at 2:40 p.m., on January 7, 2008, confirmed the medication carts were to be locked at all times. Observation of the third floor nursing unit on January 8, 2008, at 11:52 a.m., revealed a medication cart sitting outside of a patient's room in the hall with the top supply drawer slightly ajar. Observation revealed syringes in the drawer. Direct observation continued until 12:02 p.m., without any nurses noted in the immediate vicinity. Observation and interview with the nurse administrator at 12:02 p.m., on January 8, 2008, at the medication cart verified the cart was unattended, unlocked, and contained multiple patients' medications including injectable blood thinners, anti-depressants, and diuretics. Interview at the time of the observation with the nurse administrator confirmed the medication carts were to be locked when unattended. 2) Observation of the Emergency Department (ED) on January 8, 2008, at 8:30 a.m., revealed trauma room #1 had the following items for patient use:	H 683			

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003/038

State Licensure Survey – January 2008  
Plan of Correction

Team Leader Submitting Plan: Teal Haven and Marilyn Muncy

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Completion Date
HG83 1200- 8-1-06 (4) (i)	<p>All drugs, devices and related materials must be administered by, or under the supervision of, nursing or other personal in accordance with federal and state laws and regulations, including applicable licensing requirements, and in accordance with the approved medical staff policies and procedures</p> <p>This Rule is not met as evidenced by: Based on review of hospital policies and procedures, observation, and interview facility "B" failed to 1) secure medications on two out of two general nursing units and 2) maintain supplies in the Emergency Department within the expiration date for two of three trauma rooms observed. (Please refer to 1200-8-30-05; trauma room #3 referred to for Pediatrics.)</p> <p>The findings included:</p> <ol style="list-style-type: none"> <li>1) Review of the hospital's policy/procedure entitled medication Storage Areas revealed the following: "Medication carts and cabinets must be locked when not in use". Observation of the second floor nursing station with the charge nurse (RN#1) on January 7, 2008, at 11:40 a.m. revealed 2 medication carts sitting unattended at the nursing station. Observation continued and RN#1 opened each unlocked cart and revealed patient medications in several drawers. Observation of the second floor nursing station on January 7, 2008, at 2:30 p.m. revealed 2 medication carts sitting</li> </ol>	<p>Action Plan:</p> <ol style="list-style-type: none"> <li>1. a. Clarify knowledge deficit with staff. Some nurses revealed that previous leaders had OK'd keeping medication carts unlocked as long as they were at the nurses station. Review with every current staff nurse the 2 current policies (NSG-POL-PRO-03338 Medication Storage Areas and NSG-POL 03243 Medication Carts). An acknowledgement form will be signed by all staff and placed in their file. Mandatory meeting in progress with review of changes in locking of medication carts.</li> <li>1. b. Inspection of medication carts revealed the new sharp containers were blocking the view of the locks. The large sharp containers have all been lowered so that they no longer interfere with the locking mechanism. Signs have been placed on every cart with reminders to lock the carts, how to lock the cart and they must be locked at the nursing station. One page instruction sheet developed for new nurse orientation notebook with specific medication cart locking instructions. Add securing of Medication carts to new nurse orientation check sheet.</li> </ol>	<p>Kathy Barkley will complete by 2/19/08 Attachment 1</p> <p>Marilyn Muncy 2/8/08</p> <p>Completed 1/16/08 Attachment 2</p> <p>Kathy Barkley 2/19/08</p>

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	<p>unattended at the nursing station. Interview at the time of the observation revealed a registered nurse (RN#2) entered the station and verified both medication carts were unlocked and contained patient medications. Interview with RN#2 revealed the statement, "I didn't know they had to be locked when they were in the nurses station". Interview in the nursing station with the director of nurses at 2:40 p.m., on January 7, 2008, confirmed the medication carts were to be locked at all times.</p> <p>Observation of the third floor nursing unit on January 8, 2008, at 11:52 a.m., revealed a medication cart sitting outside of a patient's room in the hall with the top supply drawer slightly ajar. Observation revealed syringes in the drawer. Direct observation continued until 12:02 p.m., without any nurses noted in the immediate vicinity. Observation and interview with the nurse administrator at 12:02 p.m., on January 8, 2008, at the medication cart verified the cart was unattended, unlocked, and contained multiple patients' medications including injectable blood thinners, anti-depressants, and diuretics. Interview at the time of the observation with the nurse administrator confirmed the medication carts were to be locked when unattended.</p> <p>2) Observation of the emergency Department (ED) on January 8, 2008, at 8:30 a.m., revealed trauma room #1 had the following items for patient use:</p> <ol style="list-style-type: none"> <li>1. Multilumen Central Venous Catheterization Insertion Kit - expired September 2007;</li> <li>2. Swan Ganz insertion kit - expired January 2007; and</li> </ol>	<ol style="list-style-type: none"> <li>2. a. All rooms and supplies will be checked for expiration dates by Jennifer Tolar and designees. All expired supplies will be removed and replaced.</li> <li>2. b. Monthly assignments will be made by the coordinator or Director for each room to have all supplies checked</li> </ol>	<p>Completed by Jennifer Tolar and designees on 1/24/08.</p> <p>Jennifer Tolar. Attachment</p>
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	<p>3. Three Arterial Blood Gas kits — expired March 2003.</p> <p>Interview with the Clinical Educator in trauma room #1 on January 8, 2008, at 8:40 a.m., confirmed the facility failed to maintain supplies in the Emergency Department within the expiration date.</p>	<p>for expiration dates. Coordinator or Director will ensure completion.</p>	3
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H 683	Continued From page 7  1. Multilumen Central Venous Catheterization Insertion Kit - expired September 2007; 2. Swan Ganz Insertion kit - expired January 2007; and 3. Three Arterial Blood Gas kits - expired March 2003. Interview with the Clinical Educator in trauma room #1 on January 8, 2008, at 8:40 a.m., confirmed the facility failed to maintain supplies in the Emergency Department within the expiration date.	H 683		
J H 684	1200-8-1-.06 (4)(k) Basic Hospital Functions  (4) Nursing Services.  (k) All orders for drugs, devices and related materials must be in writing and signed by the practitioner or practitioners responsible for the care of the patient. Electronic and computer-generated records and signature entries are acceptable. When telephone or oral orders must be used, they must be:  1. Accepted only by personnel that are authorized to do so by the medical staff policies and procedures, consistent with federal and state law; and  2. Signed or initialed by the prescribing practitioner according to hospital policy.  This Rule is not met as evidenced by: Based on medical record review, observation, interview, and review of facility policy, facility A failed to ensure telephone and verbal orders were signed by the physician for two patients (#15 and #21) of twenty-seven patients, and failed to obtain	H 684	See attached	2/23/08

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STATEMENT OF DEFICIENCIES ID PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC			STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE	
H 684	<p>Continued From page 8</p> <p>physician orders for mechanical ventilator settings for one patient (#22) of three patients on mechanical ventilators reviewed.</p> <p>The findings included:</p> <p>Patient #15 was admitted to the facility on January 1, 2008, with a diagnosis of Colon Mass. Medical record review of a telephone order dated January 1, 2008, revealed, "CBC, CMP, PTT, (laboratory studies), EKG today for surgery in AM." Review of the order revealed the order was stamped with "Physician Signature" and flagged with a sticker "Doctor, please sign ..." and no physician's signature. Medical record review of a verbal order dated January 2, 2008, revealed, "1. Change Antibiotic to Levaquin 500 mg &amp; Cleocin 600 mg IV." Review of the order revealed no physician's signature. Medical record review of a verbal order dated January 2, 2008, revealed, "Change Morphine PCA to Dilaudid using PCA orders." Review of the order revealed no physician's signature. Medical record review of a phone order dated January 2, 2008, revealed "D/C (discontinue) all Morphine orders." Review of the order revealed no physician's signature. Review of the facility's policy Verbal / Telephone Orders effective March, 2003, and revised July, 2007, revealed, "...5. Verbal Orders or Telephone Orders will be signed by physician per hospital policy of signing orders on next visit. 6. Nurse will attach a flag to the order and indicate group/MD signature required ..." Interview with the Chief Nursing Officer, at the nurse's station, on January 8, 2007, at 10:45 a.m., confirmed the verbal and telephone orders were not signed by the physician.</p> <p>Patient #21 was admitted to the facility on December 26, 2007, with diagnoses of Nausea</p>	H 684			

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STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 684	Continued From page 9  and Vomiting, Dehydration, and Acute Renal Failure. Medical record review revealed the patient was placed on a ventilator and placed in restraints for medical purposes on December 30, 2007. Medical record review revealed the patient was in restraints everyday starting December 30, 2007, until the restraints were removed January 8, 2008. Medical record review revealed Physician Order For Restraint forms were completed with date, time and verbal order of physician, but not signed by the physician, on December 31, 2007, January 5, 2008, January 6, 2008, and January 7, 2008. Medical record review revealed the Physician Order for Restraint dated January 3, 2008, was not completed with time, physician signature, or verbal/telephone order. Review of the facility's policy Restraints and Seclusion, Use of effective January, 1986, and revised July, 2006, and March, 2007, revealed, "...The MD must see the patient within 24 hrs. of initiation of restraints, sign verbal order, and provide new written order, using Restraint Order form if restraints are to be continued ...Medical-Surgical Use of Restraints ...3) A renewal MD order is needed daily after the MD physically assesses the patient. 4) To ensure correct documentation of orders, the MD should use Restraint Order form which outlines order requirements: Date and time of order ..." Interview with the Chief Nursing Officer, at the nurse's station, on January 8, 2007, at 3:55 p.m., confirmed the orders were not signed by the physician.  Patient #22 was brought to the facility "A" emergency department on January 3, 2008, and experienced respiratory arrest and was intubated and placed on mechanical ventilation prior admission to the intensive care unit. Observation of the Coronary Intensive Care Unit on January 8,	H 684		

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JAN 23 2008

State Licensure Survey – January 2008  
Plan of Correction

Team Leader Submitting Plan: Gale Fellowes and Diona Brown

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Completion Date Responsible Leader
H 684	<p>1200-8-1-.06(4)(k) Basic Hospital Functions</p> <p>(4) Nursing Services</p> <p>(k) All orders for drugs, devices and related materials must be in writing and signed by the practitioner or practitioners responsible for the care of the patient. Electronic and computer-generated records and signature entries are acceptable. When telephone or oral orders must be used, they must be:</p> <ol style="list-style-type: none"> <li>1. Accepted only by personnel that are authorized to do so by the medical staff policies and procedures, consistent with federal and state law; and</li> <li>2. Signed or initialed by the prescribing practitioner according to hospital policy.</li> </ol> <p>This Rule is not met as evidenced by: Based on medical record review, observation, interview, and review of facility policy, facility A failed to ensure telephone and verbal orders were signed by the physician for two patients (#15 and #21) of twenty-seven patients, and failed to obtain physician orders for mechanical ventilator settings for one patient (#22) of three patients on mechanical ventilators reviewed.</p> <p>The findings included: Patient #15 was admitted to the facility on January 1, 2008, with a diagnosis of Colon Mass. Medical record review of a telephone order dated January 1, 2008, revealed, "CBC, CMP, PTT, (laboratory studies), EKG today for surgery in AM." Review of the order revealed the order was stamped with "Physician Signature" and flagged with a sticker "Doctor, please sign..." and no physician's signature. Medical record review of a verbal order dated January 2, 2008,</p>	<p>Action Plan:</p> <p>Action Plan-Authentication of verbal/telephone orders</p> <ol style="list-style-type: none"> <li>1. Educate physicians on medical staff regarding requirement for authentication of VO/TO within 48 hours. Medical Directors and department chairs will assist with education of other physicians. Education completed with the following groups: Intensivists, Hospitalists, Emergency Department Physicians, Operating Room/PACU Committee, and North Park Surgery Department.</li> <li>2. Letter mailed to all members of the medical staff regarding compliance with the standard and Memorial Medical Staff Policy for authentication of verbal /telephone orders.</li> <li>3. Educational posters placed in physician lounges and all dictation areas at Memorial and Memorial North Park. Poster content matches and is consistent with educational letter.</li> <li>4. Educate physicians that it is acceptable for physicians who are part of the care team (physicians covering for each other) to sign off on verbal/telephone orders for their partners.</li> <li>5. Continue efforts to decrease use of verbal/telephone orders by expanding use of appropriate documentation on all treatment protocols ("See written order from Dr. _____ Date _____, _____ RN.</li> </ol> <p>Approved by Medical Executive Committee) when already ordered with physician signature.</p> <li>6. Educate nursing staff on CMS requirement for authentication of telephone/verbal orders within 48 hours and role in reminding physicians to sign on rounds. Nursing staff, charge nurses and unit coordinators will monitor telephone/verbal orders and communicate</li>	<p>January 23, 2008 Gale Fellowes</p> <p>January 22, 2008 Gale Fellowes</p> <p>January 22, 2008 Gale Fellowes</p> <p>January 23, 2008 Gale Fellowes</p> <p>February 15, 2008 Melissa Roden</p> <p>February 28, 2008 Diona Brown</p> <p><i>per phone E Debra 2/23/07 M... 1-2A-08 K-K</i></p>

<p>revealed, "1. Change antibiotic to Levaquin 500 mg &amp; Cleocin 600 mg IV." Review of the order revealed no physician's signature. Medical record review of a verbal order dated January 2, 2008, revealed no physician's signature. Medical record review of a verbal order dated January 2, 2008, revealed D/C (discontinue) all Morphine orders." Review of the order revealed no physician's signature. Review of the facility's policy Verbal/Telephone Orders effective March 2003, and revised July 2007, revealed, "...5. Verbal Orders or Telephone Orders will be signed by physician per hospital policy of signing orders on next visit. 6. Nurse will attach a flag to the order and indicate group/MD signature required..." Interview with Chief Nursing Officer, at the nurse's station, on January 8, 2007, at 10:45 a.m., confirmed the verbal and telephone orders were not signed by the physician.</p> <p>Patient #21 was admitted to the facility on December 26, 2007, with diagnoses of Nausea and Vomiting, Dehydration, and Acute Renal Failure. Medical record review revealed the patient was placed on a ventilator and placed in restraints for medical purposes on December 30, 2007. Medical record review revealed the patient was in restraints everyday starting December 30, 2007, until restraints were removed January 8, 2008. Medical record review revealed Physician Order For Restraint forms were complete with date, time and verbal order of physician, but not signed by the physician, on December 31, 2007, January 5, 2008, January 6, 2008, and January 7, 2008. Medical record review revealed the Physician Order for Restraint dated January 3, 2008, was not completed with time, physician signature, or verbal/telephone order. Review of the facility's policy Restraints and Seclusion, Use of effective January, 1986, and reviewed July, 2006, and March, 2007, revealed, "...The MD must see the patient within 24 hrs. of initiation of restraints, sign verbal order, and provide new written order, using Restraint Order form if restraints are to be continued...Medical -Surgical Use of Restraints...3) A renewal MD order is needed daily after the MD physically assesses the patient. 4) To ensure correct documentation of orders, the MD should use Restraint Order form which outlines order requirements: Date and time of order..." Interview with the</p>	<p>need for authentication to physicians on rounds.</p> <p>7. Health Information Systems (Medical Records) to develop a chart deficiency query for MD-Physician Order signatures to audit and report compliance with CMS requirement for authentication of verbal/telephone orders. Deficiencies to be reported to medical staff and medical staff leadership through Continuous Quality Improvement Committees and Medical Executive Committee.</p> <p>8. Presence of signatures on verbal/telephone orders will be verified by auditing 10 records/week for 6 weeks to assess level of compliance and response to education. Focus audit on high volume, hospital-based physicians such as hospitalists and intensivists. Report findings to individual physicians audited, Continuous Quality Improvement Committees and Medical Executive Committee.</p>	<p>February 18, 2008 Gale Fellowes</p> <p>Begin weekly monitoring February 1, 2008 Gale Fellowes</p>
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<p>Chief Nursing Officer, at the nurse's station, on January 8, 2007, at 3:55 p.m., confirmed the orders were not signed by the physician.</p>		
<p>Patient #22 was brought to the facility "A" emergency department on January 3, 2008, and experienced respiratory arrest and was intubated and placed on mechanical ventilation prior admission to the intensive care unit. Observation of the Coronary Intensive Care Unit on January 8, 2008, at 3:30 p.m., revealed patient #22 on mechanical ventilation with settings as follows: Tidal Volume 650; Delivered oxygen 35%; Rate 8; Positive End Expiratory Rate 5; and Pressure Support 10. Interview on January 8, 2008, at 3:40 p.m., with registered nurse (#3) assigned the care of patient #22 revealed that physician orders are used for guidance to determine the correct settings for the ventilator. Medical record review of the emergency department admission physician orders dated January 3, 2008, revealed, "...10. Continue current vent settings..." Medical record review of the physician orders revealed no other documentation for ventilator setting until January 5, 2008, two days later. Interview with the Intensive Care Director at the coronary intensive care unit nurses station on January 8, 2008, at 4:00 p.m., confirmed that facility failed to have physician orders for mechanical ventilator settings for patient #22.</p>	<p><b>Action Plan-Ventilator Orders</b></p> <ol style="list-style-type: none"> <li>1. Nursing Policy (NSG POL 03156) "Physician Orders" updated to include the following statement: "All orders for drugs, devices and related materials must be in writing and signed by the practitioner responsible for the care of the patient. When telephone or verbal orders must be used, they must be: accepted only by personnel that are authorized to do so and sign or signed by the prescribing practitioner according to federal and state guidelines."</li> <li>2. Emergency Room physician order sheet updated to add space for ventilator settings to include: mode, rate, FiO2, peep and pressure support.</li> <li>3. ICU Standards of Practice updated to include every shift report between nursing and respiratory to ensure accurate communication and documentation of ventilator settings. All orders and ventilator settings will be compared for accuracy during report and any issues will be addressed immediately.</li> <li>4. Transcribing Physician Orders for Pulmonary Services Policy (NSG-POL-1925) updated to include requirement that all orders for ventilator settings and changes must be in writing either by the physician or written as verbal/telephone orders by appropriate staff.</li> <li>5. Respiratory Therapy's Standard of Care Policy (PUL-POL-1902) updated to include requirement for every shift chart check for ventilator settings for accuracy and report between nursing and respiratory therapy.</li> <li>6. Respiratory Therapy's Flow Sheet updated to incorporate documentation of shift report with nursing.</li> <li>7. All respiratory policies will be maintained on nursing page of hospital intranet to ensure availability to nursing and respiratory staff.</li> <li>8. All staff including ICU nursing staff, ED nursing staff, respiratory therapy and ED and ICU physicians will be educated on changes to documentation forms and policy changes.</li> </ol>	<p>January 23, 2008 Diona Brown</p> <p>January 23, 2008 Jan Woods</p> <p>January 23, 2008 Rhonda Poulson</p> <p>January 23, 2008 Mel Howard</p>
		<p>January 23, 2008 Mel Howard</p> <p>January 23, 2008 Mel Howard</p> <p>January 23, 2008 Mel Howard</p> <p>February 15, 2008 Jan Woods Rhonda Poulson Mel Howard</p> <p><i>Handwritten notes:</i> 2/23/08 K-Pharma E February 28, 2008 Duke-Memo 1-23-08 K</p>

		<p>9. Presence of written orders for ventilator settings will be verified through ongoing record review process including the review of 20 charts per month with improvements made as needed. Incorporate in unit score cards.</p> <p>10. Presence of report between nursing and respiratory will be verified through ongoing record review including 20 charts per month and through observation of shift report by leadership including shift to shift observations 2 times per week for 3 months.</p>	<p>Implement February 2008 Scott Madaris Rhonda Poulson Mel Howard</p> <p>Implement February 2008 Scott Madaris Rhonda Poulson Mel Howard</p>
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NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
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H 684	Continued From page 10 2008, at 3:30 p.m., revealed patient #22 on mechanical ventilation with settings as follows: Tidal Volume 650; Delivered oxygen 35%; Rate 8; Positive End Expiratory Rate 5; and Pressure Support 10. Interview on January 8, 2008, at 3:40 p.m., with registered nurse (#3) assigned the care of patient #22 revealed the physician orders are used for guidance to determine the correct settings for the ventilator. Medical record review of the emergency department admission physician orders dated January 3, 2008, revealed, "... 10. Continue current vent settings ..." Medical record review of the physician orders revealed no other documentation for ventilator setting until January 5, 2008, two days later. Interview with the Intensive Care Director at the coronary intensive care unit nurses station on January 8, 2008, at 4:00 p.m., confirmed the facility failed to have physician orders for mechanical ventilator settings for patient #22.	H 684		
✓ H 741	1200-8-1-.06 (9)(i) Basic Hospital Functions (9) Food and Dietetic Services.  (i) Food shall be protected from sources of contamination whether in storage or while being prepared, served and/or transported. Perishable foods shall be stored at such temperatures as to prevent spoilage. Potentially hazardous foods shall be maintained at safe temperatures as defined in the current "U.S. Public Health Service Food Service Sanitation Manual".  This Rule is not met as evidenced by: Based on observation and interview, one of two dry food storage areas, at facility A, did not provide protection of the food supplies from	H 741		

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State Licensure Survey – January 2008  
Plan of Correction

Team Leader Submitting Plan: Vance L. Freeman

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross-referenced to the appropriate deficiency)	Completion Date
H741	<p>1200-8-1-.06(9)(i) Basic Hospital Functions (9) Food and dietetic Services</p> <p>Food shall be protected from sources of contamination whether in storage or while being prepared, served and/or transported. Perishable foods shall be stored at such temperatures as to prevent spoilage. Potentially hazardous foods shall be maintained at safe temperatures as defined in the current "U.S. Public Health Service Food Service Sanitation manual"</p> <p>This rule is not met as evidenced by: Based on observation and interview, one of two dry food storage facilities, at facility A, did not provide protection of the food supplies from sources of contamination.</p> <p>The findings included:</p> <p>Observation with the Vice President of Corporate Responsibility and the Director of Dietary on January 7, 2008, at 11:45 a.m., of the dry food storage area located in the Materials Management room, revealed the food supplies were separated by a chain link fence from supplies in the Material Management. The food supplies, located on open racks, were within three to four inches from chemicals, located on open racks, with</p>	<p>Install Wall In Receiving Area to prevent contamination with food storage. This work will cost \$3500.00 with a completion date of February 11, 2008.</p>	<p>Quote from Casteel Painting to install wall is attached. Expected completion date is February 11, 2008</p>

	the only separation being a chain link fence. Interview with the Vice President of Corporate Responsibility and the Director of Dietary, on January 7, 2008, at 11:45 a.m., in the Materials Management room, confirmed the food supply was not protected from sources of contamination.		
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JAN 25 2008

PRINTED: 01/10/2008  
FORM APPROVED

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  MEMORIAL HEALTHCARE SYSTEM, INC		STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X6) COMPLETE DATE
H 741	Continued From page 11 sources of contamination.  The findings included:  Observation with the Vice President of Corporate Responsibility and the Director of Dietary on January 7, 2008, at 11:45 a.m., of the dry food storage area located in the Materials Management room, revealed the food supplies were separated by a chain link fence from supplies in the Material Management. The food supplies, located on open racks, were within three to four inches from chemicals, located on open racks, with the only separation being a chain link fence. Interview with the Vice President of Corporate Responsibility and the Director of Dietary, on January 7, 2008, at 11:45 a.m., in the Materials Management room, confirmed the food supply was not protected from sources of contamination.	H 741		
✓ H 826	1200-8-1-.07 (5)(i)9. Optional Hospital Services (5) Emergency Services.  (i) Emergency Room medical records shall include the following:  9. Instructions given to the patient or his family; and  This Rule is not met as evidenced by: Based on medical record review, and interview, the facility "D" failed to provide instructions in the medical record regarding prescription medication and failed to reconcile home medications for one (#5) patient of two patients discharged from the Emergency Department reviewed.	H 826	See Attached	02-15-08

Division of Health Care Facilities  
STATE FORM

0099

59UW11

If continuation sheet -12 of 13

JAN 25 2008

PRINTED: 01/10/2008  
FORM APPROVED

STATEMENT OF DEFICIENCIES & PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:  TNP53171	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED  01/09/2008
NAME OF PROVIDER OR SUPPLIER  EMORIAL HEALTHCARE SYSTEM, INC			STREET ADDRESS, CITY, STATE, ZIP CODE 2525 DESALES AVE CHATTANOOGA, TN 37404		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)		(X5) COMPLETE DATE
H 826	Continued From page 12  The findings included:  Patient #5 was admitted to the Emergency Department (ED) on January 8, 2008, with chief complaint of difficulty breathing. Patient #5 was provided a respiratory treatment, reported by the registered nurse to be stable and discharged. Medical record review revealed patient #5 was given a prescription for prednisone. Medical record review revealed no documentation of teaching instructions given for the prescription. Medical record review revealed patient #5's home medications included Singulair, Advair, Flovent, and Albuterol. Medical record review of the Home Medication List Reconciliation & Physician Orders sheet dated January 8, 2008, revealed the column titled "MD Discharge Reconciliation" and the line titled, "MD Discharge Reconciliation" to indicate to continue at discharge were both blank. Interview with the Clinical Educator in the Emergency Department break room on January 8, 2008, at 11:50 a.m., verified there was no guidance from nursing or the physician regarding the home medications and confirmed the facility failed to document discharge instructions and medication reconciliation in the medical record.	H 826			

JAN 25 2008

01/25/2008 FRI 11:50 FAX

018/038

State Licensure Survey -- January 2008  
Plan of Correction

Team Leader Submitting Plan: Teal Haven and Marilyn Muncy

ID Prefix Tag	Summary Statement of Deficiencies (based on document received from State of TN)	Provider's Plan of Correction (each corrective action should be cross referenced to the appropriate deficiency)	Complete Date
H 826 1200- 8-1-.07 (5) (3)9.	<p>Optional Hospital Services (5) Emergency Services (1) Emergency Room medical records shall include the following: 9. Instructions given to the patient or his family; and</p> <p>this Rule is not met as evidenced by: Based on medical record review, and interview, the facility "B" failed to provide instructions in the medical record regarding prescription medication and failed to reconcile home medications for one (#5) patient of two patients discharged from the Emergency Department reviewed.</p> <p>The findings included:</p> <p>Patient #5 was admitted to the Emergency Department (ED) on January 8, 2008, with the chief complaint of difficulty breathing. Patient #5 was provided a respiratory treatment, reported by the registered nurse to be stable and discharged. Medical record review revealed patient #5 was given a prescription for prednisone. Medical record review revealed no documentation of teaching instructions given for the prescription. Medical record review revealed patient #5's home medications included singulair, Advair, Flovent, and Albuterol. Medical record review of the Home Medication List Reconciliation and p=Physician Orders sheet dated January 8, 2008, revealed the column titled "MD Discharge Reconciliation" and the line titled, "MD Discharge Reconciliation" to</p>	<p>4. a. Update EC policy, "Discharge Instructions" EC-POL-IV-1 to include written documentation of instructions, diagnosis and prescription, given to patient.</p> <p>b. Educate staff regarding revision of Discharge Instructions policy EC-POL-IV-1, the use of Micromedex for printing of patient signature page (until this can be incorporated into discharge instruction sheet) and requirement for obtaining signature for education given.</p> <p>c. Review of Medication Reconciliation Policy (NSG-POL-03211) with EC Medical Director of requirement to reconcile home medications at the time of discharge. EC Medical Director will advise all other Physician and Mid-Level providers of requirement. 5% of discharged charts will be audited quarterly and results shared at Quarterly EC MD \ Administration meeting.</p> <p>d. Educate staff on Medication Reconciliation Policy NSG-POL-03211, required to give patient copy of medication reconciliation form at the time of discharge.</p> <p>e. EC Director or designee will audit 5% of discharged patients per quarter for compliance with documentation of</p>	<p>Marilyn Muncy 1/24/08 Attachment 4</p> <p>Jennifer Tolar by 2/15/08 Attachment 5</p> <p>Teal Haven, Marilyn Muncy and Joe Minton by 2/1/08. Attachment 6.</p> <p>Jennifer Tolar by 2/15/08</p> <p>Marilyn Muncy</p>

01/25/2008 FRI 11:50 FAX

019/038

	indicate to continue at discharge were both blank. Interview with the Clinical Educator in the Emergency Department break room on January 8, 2008, at 11:50 a.m., verified there was no guidance from nursing or the physician regarding the home medications and confirmed the facility failed to document discharge instructions and medication reconciliation in the medical record.	patient's receipt of diagnosis and prescription instruction sheets and reconciliation of home medications.	
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# APPLICATION ATTACHMENTS

## Proof of Publication





Account #: 104295  
 Company: MEMORIAL HEALTH CARE  
 SYSTEM  
 Client:  
 Ad number: 84704  
 PO#:  
 Note:

## AFFIDAVIT • STATE OF TENNESSEE • HAMILTON COUNTY

Before me personally appeared Jim Stevens, who being duly sworn that he is the Legal Sales Representative of the CHATTANOOGA TIMES FREE PRESS, and that the Legal Ad of which the attached is a true copy, has been published in the above named newspaper and on the corresponding newspaper website on the following dates, to-wit:

*Chattanooga Times Free Press: 01/08/18.*

And that there is due or has been paid the CHATTANOOGA TIMES FREE PRESS for publication the sum of \$258.72. (Includes \$0.00 Affidavit Charge).

  
 \_\_\_\_\_

Sworn to and subscribed before me this date: 01/09/2018

  
 \_\_\_\_\_

My Commission Expires 03/07/2021



— Chattanooga —  
**Times Free Press**

400 EAST 11TH ST  
 CHATTANOOGA, TN 37403

## TRUE COPY OF PUBLISHED LEGAL AD

## Chattanooga Times Free Press

**NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Memorial North Park dba CHI Memorial Hospital - Hixson, owned by Memorial Health Care System, Inc. with an ownership type of not-for-profit corporation and to be managed by itself intends to file an application for a Certificate of Need for the establishment of linear accelerator services at its campus located at 2051 Hamill Road, Hixson, Hamilton County TN 37343.

The project involves renovation of approximately 1,301 square feet and new construction of approximately 3,431 square feet, acquisition of a linear accelerator, and construction of a linear accelerator vault. CHI Memorial Hospital - Hixson is a satellite facility of CHI Memorial Hospital - Chattanooga. CHI Memorial Hospital - Chattanooga will decommission one linear accelerator at its downtown campus located at 2525 deSales Avenue, Chattanooga, Hamilton County TN 37404, effectively relocating existing linear accelerator capacity within the same county to CHI Memorial Hospital - Hixson. No hospital beds are affected by this project. The total project cost is estimated at \$8,468,322.88.

The anticipated date of filing the application is: January 12, 2018. The contact person for this project is Janice Dyer, Director of Strategic Planning, who may be reached at: CHI Memorial Health Care System, 2525 deSales Avenue, Chattanooga, TN 37404, 423/495-7687.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency  
Andrew Jackson Building, 9th Floor  
502 Deaderick Street  
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. §68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

B4704-1

# Supplemental #1 (Copy)

Memorial North Park DBA  
CHI Memorial Hospital -  
Hixson

CN1801-002

# **CERTIFICATE OF NEED APPLICATION**

## **Supplemental Inquiry Responses**



**Memorial North Park Hospital**  
**dba**  
**CHI Memorial Hospital – Hixson**

*Application for Approval of the CHI Memorial Health Care System initiating  
Linear Accelerator Services on its Hixson Campus in Hamilton County*

# SUPPLEMENTAL RESPONSES

Inquiries 1-22



**CHI Memorial**

**1. Consent Calendar Request**

It is noted the applicant is requesting Consent Calendar. Please provide justification for placing the proposed project on Consent Calendar by briefly addressing the following Criteria: Need, Economic Feasibility, Contribution to the Orderly Development of Health Care, and Quality measures.

According to your Letter of Intent the proposed project will not add to the inventory of linear accelerators. If this project is approved, will the applicant accept the condition of decommissioning the linear accelerator at Memorial-Chattanooga and not increase the linear accelerator inventory at Memorial-Chattanooga or Memorial Hixson without an approved CON?

*A summary of how the application meets the applicable criteria for Consent Calendar is as follows:*

Need

*Need is established by the fact that the project will not increase linear accelerator capacity in the market, but will relocate capacity so that the service is more accessible to a significant number of patients already served by Memorial. Need is further established by the age of the existing linear accelerator that will be retired if this project is approved.*

Financial Feasibility

*Financial feasibility is demonstrated by the commitment from the parent to fund the project cost and the financial projections that indicate positive financial results in the first year of operation.*

Contribution to the Orderly Development of Health Care

*The project will contribute to the orderly development of health care because it will make radiation therapy services more convenient to patients in a significant portion of Hamilton County and to patients in Marion, Rhea and Sequatchie counties. The project will reduce the travel time for patients, most of whom require multiple visits for radiation therapy. Contribution to orderly development of health care is further established Memorial's participation in the TennCare program, and by support for the project expressed by Tennessee Oncology, the largest oncology group in the State.*

Quality Measures

*The Agency can be assured that the project will meet or exceed all applicable quality measures, based on well-established record of quality care provided by Memorial. The project meets applicable criteria for ASTRO accreditation. In addition, the applicant has*

stated it unequivocal commitment to the meet the quality measures outline in question 22 below.

*If the application is approved, the applicant will accept the condition of decommissioning an existing linear accelerator. Memorial has no plans to add another linear accelerator at either the Memorial-Chattanooga or Memorial-Hixson campus. Memorial respectfully suggests that it would not be appropriate to place a condition or limitation on a certificate of need that voids a right that an applicant has under law. Memorial currently has the unrestricted right to add more linear accelerators at its Chattanooga campus without a certificate of need. The current application is not a "bait and switch" proposition, i.e., it is not seeking to place a linear accelerator at Hixson while harboring an undisclosed intention to also add a new linear accelerator to the Chattanooga campus. While there is unequivocally no plan to add a new accelerator at the Memorial-Chattanooga campus, it is not reasonable to expect Memorial-Chattanooga to relinquish permanently its rights to do so without a certificate of need. In this regard, we note that the Agency imposed no such condition on CN1202-004, which was the certificate of need approved for Memorial to relocate linear accelerator service to a proposed facility in Ooltewah. (As explained on page 3 of the original application, this project was not implemented and the certificate of need was surrendered.)*

## **2. Section A. Applicant Profile, Item I 6B (1) Plot Plan and 6B (2) Floor Plan**

The plot plan is noted. However, please provide the location of the proposed linear accelerator on the site and submit a revised plot plan.

*A revised plot plan is provided as Attachment A-6B-1 - Plot Plan - REVISED.*

The floor plan is noted. However, please provide an enlarged legible floor plan of the highlighted area.

*A revised floor plan is provided as Attachment A-6B-2 - Floor Plan - REVISED.*

**3. Section A. Applicant Profile, Item A-3-A (1) Description**

Please describe the cancer services at Hixson and compare to what is available at Memorial Chattanooga. Is the full continuum of cancer services available at both locations?

*The cancer services offered at Memorial Hixson are as follows:*

- *Mary Ellen Locher Breast Center*
  - *Breast Imaging and Surgery plus DEXA for Bone Density*
  - *Breast Cancer Patient Navigation and Support Services*
  - *Robotic and Non-Robotic Breast Surgical Oncology*
- *Outpatient Infusion*
- *Private Practice Medical Oncology*
- *Private Practice General Surgery*
- *Capsule Endoscopy*
- *Optical and Virtual Colonoscopies*

*The cancer services offered at Memorial Chattanooga are as follows:*

- *Mary Ellen Locher Breast Center*
  - *Breast Imaging and Surgery plus DEXA for Bone Density*
  - *Breast Cancer Patient Navigation and Support Services*
  - *Robotic and Non-Robotic Breast Surgical Oncology*
  - *Surgical Consultations*
  - *Reconstructive Clinic*
  - *Gynecology*
- *Outpatient Infusion*
- *Private Practice Medical Oncology*
- *Private Practice General Surgery*
- *2<sup>nd</sup> Opinion Breast Clinic*
- *Cancer Risk and Survivorship Clinic*
- *Inpatient Oncology*
- *12 Tumor Conferences*
- *Private Practice Radiation Oncology*
- *Employed and Non-Employed Surgical Oncology (All Cancers)*
- *Melanoma Program*
- *Community Outreach*
- *Mobile Screening Vehicles and Program*
- *Buz Standefer Lung Center*
  - *Interventional Specialists*
  - *Pulmonary Specialists*
  - *Imaging Services*
  - *Rehabilitation Services*
  - *Robotic Surgery*
- *Smoking Cessation Program*



*A full continuum of cancer services is available at Memorial Chattanooga. The proposed linear accelerator will enhance the service offerings at Memorial Hixson; as a satellite facility, Memorial Hixson will be able to offer radiation therapy services conveniently for patients in the proposed service area, while CT simulation and planning services will continue to be centralized at Memorial Chattanooga at present.*

**4. Section A. Applicant Profile, Item 12 Square Footage and Cost per Square Footage Chart**

It is noted the total cost per square foot of the proposed project is \$591.69 /sq. ft. Please clarify the reasons the cost is above the total construction 3<sup>rd</sup> quartile cost of \$330.50/sq. ft. of hospital projects approved by the Agency from 2014 to 2016.

*The Linear Accelerator Vault is extremely expensive per square foot (nearly \$1,000 per square foot); the overall square footage of the project is relatively small, which skews the calculated cost upward. Further, the mechanical and electrical systems in the MOB need to be upgraded as part of this project; with the project square footage being relatively small, the calculated cost is also skewed by the fixed intensity of the work required. Furthermore, the project includes a small area of new construction; the square footage of this space is relatively small, which also skews the calculated cost upward.*

**5. Section B. Need Item 1. (State Health Plan and Project Specific Criteria - Megavoltage Radiation Therapy) Item 3 Access to MR Units, Page 16**

On page 19 of the application the applicant projects 83.9% of Year One linear accelerator procedures will be provided to Hamilton County residents. Please verify that those Hamilton County residents will reside within a 45 minute drive time of Memorial Hixson.

*A map – generated by Mapitude software – displaying a forty-five minute drive-time ring (centered on the address of Memorial Hixson) is provided as Attachment B-Need-1-3B - Drive-Time Map, which clearly displays the entirety of Hamilton County is geographically situated within the forty-five minute drive-time boundaries.*

**6. Section B. Need Item 1. (State Health Plan and Project Specific Criteria - Megavoltage Radiation Therapy) Patient Safety and Quality of Care, Items 6.B and 6.C, Page 17**

Please provide a copy of the protocols that demonstrate how emergencies within the MRT Unit facility will be managed in conformity with accepted medical practice.

Please provide the applicant's protocols that assure that all MRT procedures performed are medically necessary and will not duplicate other services.

*Please view Attachment B-Need-1-6C - Emergency Protocols for documents outlining emergency protocols for radiation oncology service areas, including a general emergency decision tree plus physician supervision and rapid response standards.*

*Memorial does not make determinations that a patient needs radiation therapy or the course or kind of radiation therapy treatments prescribed for a patient. Those treatment decisions are made by the patient's physician in consultation with the patient. Accordingly, there is no reason for Memorial to establish medical necessity protocols specifically for radiation therapy. We are attaching under Attachment B-Need-1-6D - Medical Necessity our general protocols for the operation and oversight of radiation therapy services.*

**7. Section B. Need Item 1. (State Health Plan and Project Specific Criteria - Megavoltage Radiation Therapy) Patient Safety and Quality of Care, Item 6.E, Page 17**

It is noted the applicant follows ASTRO staffing requirements. However, on page 36 of the application it is noted the applicant will apply for ASTRO accreditation in 2018. Please clarify if the applicant will be ASTRO accredited within two years following initiation of the proposed MRT unit.

What type of audit is performed by the applicant to ensure ASTRO staffing requirements are currently followed since it appears the applicant is not accredited?

*ASTRO accreditation will be established in July of 2019; monthly ASTRO accreditation meetings are held with physicians, during which accreditation requirements are reviewed continually as preparations are being made for July 2019 accreditation.*

**8. Section B. Need Item 1. (State Health Plan and Project Specific Criteria - Megavoltage Radiation Therapy) Patient Access, Item 8.A., Page 18**

Please provide documentation from the United States Health Resources and Services Administration that parts of Marion, Rhea, and Sequatchie Counties are designated as medically underserved areas.

*Records from the HRSA Data Warehouse are included as Attachment B-Need-1-8A - MUA Records, which identify Marion, Rhea, and Sequatchie counties as Medically Underserved Areas.*

**9. Section B. Need Item 1. (State Health Plan and Project Specific Criteria - Megavoltage Radiation Therapy) Patient Access, Item 8.C., Page 18**

It is noted the applicant contracts with Medicare and multiple MCOs. Please clarify the reason the applicant is not contracted with TennCare Select. Where are TennCare Select enrollees referred for services?

*TennCare Select covers specific services for children under the age of fourteen; CHI Memorial lacks the capability to offer these services to these patients covered by this product. TennCare Select patients are appropriately referred to area providers.*

**10. Section B. Need Item 3. Service Area Page 19**

The chart of the projected patients in Year 1 is noted. However, is the applicant expecting any patients in Year One from any ZIP codes outside of the declared service area ZIP codes?

Expenses" do not match the "other expenses categories" breakout for the same years (\$12,509,557 and \$12,109,759) on page 26. Please clarify.

Also, there appears to be a calculating error in the 2017 Free Cash Flow total of \$9,000,291. Please correct and submit a revised Historical Data Chart.

*A revised chart is provided as Attachment 25R-26R.*

**15. Section B, Economic Feasibility, Item 4. (Projected Data Chart) Page 28**

The Project Only Projected Data Chart is noted. However, there appears to be a calculation error in the total deductions (\$22,082,813) for Year One. Also, please provide totals for the total operating expenses line and total other deductions for Year One and Year Two.

Please also provide a Projected Data Chart for the Total Facility.

*Revised charts are provided as Attachment 28R-29R.*

**16. Section B, Economic Feasibility, Item 5.A Page 30**

There appear to be calculation errors in the chart on the top of page 30 for the gross charge, deduction from revenue, and average net charge. Please correct and submit a replacement page 30 (labeled as 30R).

*A revised chart is provided as Attachment 30R.*

**17. Section B, Economic Feasibility, Item 5.C Page 31**

The chart displaying total gross charges and average gross charges per treatment is noted on page 31. Please explain the reasons the total gross charges increased from \$24,491,145 in 2014 to \$59,122,748 in 2015 for Memorial Hospital resulting in an average gross charge per treatment increase from \$1,550 to \$3,123.89 on the same number of units (3).

*A new Meditech platform CPT code for IMRT was released in 2015, which resulted in updates to our charge master. Also, during this time we began providing more complex procedures, e.g., IMRT, SBRT, SRS. The updated charge master, combined with the increased number of procedures with greater complexity, resulted in aggregate charges in 2015, as compared to 2014, being proportionately higher than would have occurred otherwise based solely on number of procedures.*

**18. Section B., Economic Feasibility, Item 6 B. Page 32**

Your response is noted. However, the Net Operating Margin for Year One and year Two appears incorrect. The correct Net Operating Margin Ratio appears to be 25.9% for Year One and 28.99% for Year Two. Please correct and provide a replacement page 32 (labeled as 32R).

*A revised chart is provided as Attachment 32R.*

**19. Section B., Economic Feasibility, Item 7 Projected Payor Mix Table, Page 33**

The payor mix table is noted. However, Charity Care calculates to approximately 1% and "other" in the amount of \$32,032 calculates to approximately 0.10%. Please correct and provide a replacement page 33 (labeled as 33R).

Please clarify what the payor source is for "other" in the amount of \$32,032.

Please explain the reason charity care is listed at \$227,476 in the Payor Mix Table on page 33 and listed differently at \$662,485 in the Projected Data Chart (Project Only) on page 28 of the application.

*A revised chart is provided as Attachment 33R. The "Other" payor source represents relatively small proportion including research and other facility billings.*

**20. Section B., Economic Feasibility, Item 8, Page 34**

Your response is noted. However, the existing FTEs total for direct care positions totals 21, not 25. Also, Projected FTEs for Year One total 4, not 5. In addition, please enter the year as requested for the existing FTE column. Please recalculate all columns (including the total staff line) and submit a corrected page 34 (labeled as 34R).

The existing FTE column is noted. Please clarify how many linear accelerators this column represents. It appears this column represents more than the one linear accelerator that is subject to this application.

*A revised chart is provided as Attachment 34R. The "Existing" column values represent the three existing linear accelerators; the "Projected" column represents one linear accelerator.*

**21. Section B., Contribution to Orderly Development, Item 4.B**

Please provide documentation from the Joint Commission noting Memorial Hixson is in good standing with the Joint Commission and no deficiencies were found in the most recent survey period as described in the application.

*Please review Attachment B-Orderly Development-4B - Joint Commission.*

**22. Section B, Quality Measures**

**Please verify and acknowledge the applicant will be evaluated annually whether the proposal will provide health care that meets appropriate quality standards upon the following factors:**

*We understand that the project will be evaluated annually with respect to applicable quality standards as outlined in question 22, and we confirm our commitment to meet or exceed such standards.*

(3) Quality. Whether the proposal will provide health care that meets appropriate quality standards may be evaluated upon the following factors:

- (a) Whether the applicant commits to maintaining staffing comparable to the staffing chart presented in its CON application;
- (b) Whether the applicant will obtain and maintain all applicable state licenses in good standing;
- (c) Whether the applicant will obtain and maintain TennCare and Medicare certification(s), if participation in such programs was indicated in the application;
- (d) Whether an existing healthcare institution applying for a CON has maintained substantial compliance with applicable federal and state regulation for the three years prior to the CON application. In the event of non-compliance, the nature of non-compliance and corrective action shall be considered;
- (e) Whether an existing health care institution applying for a CON has been decertified within the prior three years. This provision shall not apply if a new, unrelated owner applies for a CON related to a previously decertified facility;
- (f) Whether the applicant will participate, within 2 years of implementation of the project, in self-assessment and external assessment against nationally available benchmark data to accurately assess its level of performance in relation to established standards and to implement ways to continuously improve.

1. This may include accreditation by any organization approved by Centers for Medicare and Medicaid Services (CMS) and other nationally recognized programs. The Joint Commission or its successor, for example, would be acceptable if applicable. Other acceptable accrediting organizations may include, but are not limited to, the following:

(iv) American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority, for Megavoltage Radiation Therapy projects;

(m) For Megavoltage Radiation Therapy projects, whether the applicant has demonstrated that it will meet the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority.

# **SUPPLEMENTAL ATTACHMENTS**

## **Section B**

### **Economic Feasibility-6A**

### **Financial Statements Notes**



Catholic Health Initiatives  
Consolidated Balance Sheets  
(In Thousands)

	June 30	
	2017	2016
<b>Assets</b>		
Current assets:	\$ 1,033,166	\$ 1,305,242
Cash and equivalents		
Net patient accounts receivable, less allowances		
for bad debts of \$1,024,099 and \$968,148 at		
June 30, 2017 and 2016, respectively	2,154,248	2,161,237
Other accounts receivable	251,137	274,432
Current portion of investments and assets limited as to use	65,161	63,146
Inventories	302,406	280,623
Assets held for sale	582,344	665,428
Prepaid and other	153,626	147,554
Total current assets	4,542,088	4,897,662
Investments and assets limited as to use:		
Internally designated for capital and other funds	5,310,808	4,952,065
Mission and ministry fund	126,795	125,166
Capital resource pool	136,585	261,572
Held by trustees	76,850	113,235
Held for insurance purposes	876,922	841,048
Restricted by donors	258,511	264,949
Total investments and assets limited as to use	6,786,471	6,558,035
Property and equipment, net	8,569,313	9,034,052
Investments in unconsolidated organizations	1,321,453	1,260,021
Intangible assets and goodwill, net	473,837	462,838
Notes receivable and other	238,588	446,522
Total assets	<u>\$ 21,931,750</u>	<u>\$ 22,659,130</u>

	June 30	
	2017	2016
<b>Liabilities and net assets</b>		
Current liabilities:		
Compensation and benefits	\$ 642,623	\$ 682,053
Third-party liabilities, net	85,087	114,065
Accounts payable and accrued expenses	1,689,849	1,750,402
Liabilities held for sale	165,735	175,239
Variable-rate debt with self-liquidity	96,700	96,700
Commercial paper and current portion of debt	2,017,508	1,768,028
Total current liabilities	4,697,502	4,586,487
Pension liability	1,110,983	1,535,840
Self-insured reserves and claims	635,780	646,714
Other liabilities	1,172,549	1,262,068
Long-term debt	6,588,202	7,180,925
Total liabilities	14,205,016	15,212,034
Net assets:		
Net assets attributable to CHI	7,047,905	6,704,217
Net assets attributable to noncontrolling interests	367,483	423,424
Unrestricted	7,415,388	7,127,641
Temporarily restricted	214,250	224,524
Permanently restricted	97,096	94,931
Total net assets	7,726,734	7,447,096
Total liabilities and net assets	<u>\$ 21,931,750</u>	<u>\$ 22,659,130</u>

*See accompanying notes.*



January 26, 2018

10:21 A.M.

Catholic Health Initiatives  
Chattanooga TN  
Consolidated Balance Sheets  
Year to Date - Fiscal Year 2018  
For the Period Ended December 2017  
(Dollars in Thousands)

	Actual	Prior Month	June 2017		Actual	Prior Month	June 2017
<b>Assets:</b>				<b>Liabilities and net assets</b>			
Current assets:				Current liabilities:			
Cash and equivalents	\$47,743	\$58,224	\$49,724	Compensation and benefits	\$15,299	\$21,497	\$14,898
Net patient accounts receivable, net of contractual	97,666	96,443	97,344	Third-party liabilities	(2,017)	(2,021)	(1,518)
Less allowances for bad debts	(20,915)	(20,367)	(22,271)	Accounts payable	21,920	20,248	25,846
Net patient accounts receivable	76,750	76,076	75,073	Accrued expenses other	10,165	10,227	9,552
Other accounts receivable	6,980	6,960	5,122	Liabilities held for sale	-	-	-
Current portion of investments and assets	-	-	-	Variable rate debt with self liquidity	-	-	-
limited as to use	-	-	-	Current portion of long-term debt:	11,543	11,497	11,272
Inventories	15,417	14,875	14,752	CHL capital obligation debt	97	23	106
Assets held for sale	3,015	2,506	2,545	Other debt	14,640	11,520	11,378
Prepaid and other	149,906	158,641	146,216	Total current portion of long-term debt	57,007	61,471	60,157
Total current assets	240,149	238,090	225,076	Total current liabilities	12,371	12,489	13,094
Investments and assets limited as to use:				Pension liabilities	-	-	-
Internally designated for capital and other funds	-	-	-	Self-insured reserves and claims	-	-	-
Mission and Ministry Fund	-	-	-	Other liabilities	201,731	202,714	207,571
Capital Resource Pool	-	-	-	Long-term debt	966	1,050	1,013
Held by trustees	-	-	-	CHL capital obligation debt	202,697	203,763	208,584
Held for insurance purposes	4,888	3,866	2,867	Other debt	272,075	277,723	281,834
Restricted by donors	245,037	241,956	227,943	Total long-term debt	-	-	-
Total investments and assets limited as to use	-	-	-	Total liabilities	541,531	535,443	511,745
Property and equipment:				Net assets:	310	310	306
Cost	793,601	793,597	791,026	Controlling	541,841	535,753	512,052
Less accumulated depreciation	(417,066)	(414,831)	(403,702)	Noncontrolling	2,539	2,323	1,744
Construction in progress	6,505	4,725	2,210	Unrestricted	1,302	1,287	1,257
Property and equipment, net,	383,140	383,491	389,534	Temporarily restricted	545,682	539,373	515,053
Investments in unconsolidated organizations	325	330	228	Permanently restricted	-	-	-
Intangible assets and goodwill	14,473	7,087	7,087	Total net assets	24,877	25,591	25,879
Prepaid pension expense	-	-	-	Total liabilities and net assets	\$817,757	\$817,096	\$796,887
Other	-	-	-				
Total assets	\$817,757	\$817,096	\$796,887				

# **SUPPLEMENTAL ATTACHMENTS**

## **Section B**

### **Orderly Development-4B**

### **Joint Commission**



June 8, 2016

Larry Schumacher  
CEO  
Memorial Health Care System  
2525 deSales Avenue  
Chattanooga, TN 37404

Joint Commission ID #: 7813  
Program: Hospital Accreditation  
Accreditation Activity: 60-day Evidence of  
Standards Compliance  
Accreditation Activity Completed: 06/08/2016

Dear Mr. Schumacher:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Hospitals**

This accreditation cycle is effective beginning March 12, 2016 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark G. Pelletier, RN, MS

Chief Operating Officer

Division of Accreditation and Certification Operations

**Official Accreditation Report**

Memorial Health Care System  
2525 deSales Avenue  
Chattanooga, TN 37404

**Organization Identification Number: 7813**

**Measure of Success Submitted: 10/3/2016**

**The Joint Commission****Executive Summary****Program(s)**

Hospital Accreditation

**Submit Date**

10/3/2016

**Hospital Accreditation :** As a result of the accreditation activity conducted on the above date(s), there were no Requirements for Improvement identified.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

**The Joint Commission****Requirements for Improvement – Summary**

<b>Program</b>	<b>Standard</b>	<b>Level of Compliance</b>
HAP	EC.02.04.03	Compliant
HAP	EC.02.06.01	Compliant
HAP	IC.02.01.01	Compliant
HAP	IC.02.02.01	Compliant
HAP	MM.03.01.01	Compliant
HAP	MM.04.01.01	Compliant
HAP	PC.01.02.01	Compliant
HAP	PC.01.03.01	Compliant
HAP	TS.03.01.01	Compliant
HAP	UP.01.03.01	Compliant

**The Joint Commission**

**AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF HamiltonNAME OF FACILITY: CHI Memorial Hospital -Hixson

I, LAWRENCE P. SCHUMACHER, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Lawrence P. Schumacher CEO  
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 25<sup>th</sup> day of January, 2018,  
witness my hand at office in the County of Hamilton, State of Tennessee.

My commission expires 3-9-2019



January 26, 2018

10:21 A.M.

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF HamiltonNAME OF FACILITY: CHI Memorial Hospital -Hixson

I, LAWRENCE P. SCHUMACHER, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Lawrence P. Schumacher CEO  
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 25<sup>th</sup> day of January, 2018, witness my hand at office in the County of Hamilton, State of Tennessee.

Tammy Singleton  
NOTARY PUBLIC  
My Comm Exp.  
March 9, 2019  
COUNTY OF HAMILTON

My commission expires 3-9-19,

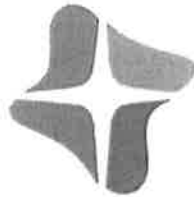
# Supplemental #2 (Copy)

Memorial North Park DBA  
CHI Memorial Hospital -  
Hixson

CN1801-002

# **CERTIFICATE OF NEED APPLICATION**

## **Supplemental Inquiry Responses**



**Memorial North Park Hospital**

**dba**

**CHI Memorial Hospital – Hixson**

*Application for Approval of the CHI Memorial Health Care System initiating  
Linear Accelerator Services on its Hixson Campus in Hamilton County*



**CHI Memorial**

# SUPPLEMENTAL ATTACHMENTS

## Section B 28A-28B (REVISED)

*NOTE: Total Non-Operating Expenses values have been corrected, which corrected the Net Income values.*

# SUPPLEMENTAL ATTACHMENTS

Section B

23R

(REVISED)

*NOTE: We acknowledge the \$3.25  
filing fee refund and appreciate the  
clarification.*



CHI Memorial

# SUPPLEMENTAL RESPONSES

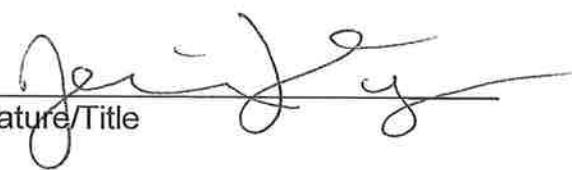
## Inquiries 1-3

**AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF HamiltonNAME OF FACILITY: CHI Memorial Hospital - Hixson

I, JANICE B. DYER, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

  
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 30 day of JANUARY, 2018, witness my hand at office in the County of HAMILTON, State of Tennessee.

  
NOTARY PUBLICMy commission expires Nov 16, 2020.

HF-0043

Revised 7/02









State of Tennessee  
Health Services and Development Agency

Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, TN 37243

[www.tn.gov/hsda](http://www.tn.gov/hsda)

Phone: 615-741-2364

Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper  
(Name of Newspaper)  
of general circulation in Hamilton, Tennessee, on or before January 8, 2018  
(County) (Month / day) (Year)  
for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Memorial North Park dba CHI Memorial Hospital - Hixson  
(Name of Applicant)

Hospital  
(Facility Type-Existing)

owned by: Memorial Health Care System, Inc. with an ownership type of not-for-profit corporation  
and to be managed by itself intends to file an application for a Certificate of Need for the establishment of linear accelerator services at its campus located at 2051 Hamill Road, Hixson, Hamilton County TN 37343. The project involves renovation of approximately 1,301 square feet and new construction of approximately 3,431 square feet, acquisition of a linear accelerator, and construction of a linear accelerator vault. CHI Memorial Hospital - Hixson is a satellite facility of CHI Memorial Hospital - Chattanooga. CHI Memorial Hospital - Chattanooga will decommission one linear accelerator at its downtown campus located at 2525 deSales Avenue, Chattanooga, Hamilton County TN 37404, effectively relocating existing linear accelerator capacity within the same county to CHI Memorial Hospital - Hixson. No hospital beds are affected by this project. The total project cost is estimated at \$ 8,468,322.88.

The anticipated date of filing the application is: January 12, 2018

The contact person for this project is Janice Dyer, Director of Strategic Planning  
(Contact Name) (Title)

who may be reached at: CHI Memorial Health Care System 2525 deSales Avenue  
(Company Name) (Address)

Chattanooga TN 37404 423/495-7687  
(City) (State) (Zip Code) (Area Code /Phone Number)

Janice Dyer 1/4/2018 Janice\_Dyer@memorial.org  
(Signature) (Date) (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency  
Andrew Jackson Building, 9<sup>th</sup> Floor  
502 Deaderick Street  
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

**RULES  
OF  
HEALTH SERVICES AND DEVELOPMENT AGENCY**

**CHAPTER 0720-11  
CERTIFICATE OF NEED PROGRAM – GENERAL CRITERIA**

**TABLE OF CONTENTS**

0720-11-.01 General Criteria for Certificate of Need

**0720-11-.01 GENERAL CRITERIA FOR CERTIFICATE OF NEED.** The Agency will consider the following general criteria in determining whether an application for a certificate of need should be granted:

- (1) Need. The health care needed in the area to be served may be evaluated upon the following factors:
  - (a) The relationship of the proposal to any existing applicable plans;
  - (b) The population served by the proposal;
  - (c) The existing or certified services or institutions in the area;
  - (d) The reasonableness of the service area;
  - (e) The special needs of the service area population, including the accessibility to consumers, particularly women, racial and ethnic minorities, TennCare participants, and low-income groups;
  - (f) Comparison of utilization/occupancy trends and services offered by other area providers;
  - (g) The extent to which Medicare, Medicaid, TennCare, medically indigent, charity care patients and low income patients will be served by the project. In determining whether this criteria is met, the Agency shall consider how the applicant has assessed that providers of services which will operate in conjunction with the project will also meet these needs.
- (2) Economic Factors. The probability that the proposal can be economically accomplished and maintained may be evaluated upon the following factors:
  - (a) Whether adequate funds are available to the applicant to complete the project;
  - (b) The reasonableness of the proposed project costs;
  - (c) Anticipated revenue from the proposed project and the impact on existing patient charges;
  - (d) Participation in state/federal revenue programs;
  - (e) Alternatives considered; and
  - (f) The availability of less costly or more effective alternative methods of providing the benefits intended by the proposal.

(Rule 0720-11-.01, continued)

- (3) Quality. Whether the proposal will provide health care that meets appropriate quality standards may be evaluated upon the following factors:
  - (a) Whether the applicant commits to maintaining an actual payor mix that is comparable to the payor mix projected in its CON application, particularly as it relates to Medicare, TennCare/Medicaid, Charity Care, and the Medically Indigent;
  - (b) Whether the applicant commits to maintaining staffing comparable to the staffing chart presented in its CON application;
  - (c) Whether the applicant will obtain and maintain all applicable state licenses in good standing;
  - (d) Whether the applicant will obtain and maintain TennCare and Medicare certification(s), if participation in such programs was indicated in the application;
  - (e) Whether an existing healthcare institution applying for a CON has maintained substantial compliance with applicable federal and state regulation for the three years prior to the CON application. In the event of non-compliance, the nature of non-compliance and corrective action shall be considered;
  - (f) Whether an existing health care institution applying for a CON has been decertified within the prior three years. This provision shall not apply if a new, unrelated owner applies for a CON related to a previously decertified facility;
  - (g) Whether the applicant will participate, within 2 years of implementation of the project, in self-assessment and external peer assessment processes used by health care organizations to accurately assess their level of performance in relation to established standards and to implement ways to continuously improve.
    1. This may include accreditation by any organization approved by Centers for Medicare and Medicaid Services (CMS) and other nationally recognized programs. The Joint Commission or its successor, for example, would be acceptable if applicable. Other acceptable accrediting organizations may include, but are not limited to, the following:
      - (i) Those having the same accrediting standards as the licensed hospital of which it will be a department, for a Freestanding Emergency Department;
      - (ii) Accreditation Association for Ambulatory Health Care, and where applicable, American Association for Accreditation of Ambulatory Surgical Facilities, for Ambulatory Surgical Treatment Center projects;
      - (iii) Commission on Accreditation of Rehabilitation Facilities (CARF), for Comprehensive Inpatient Rehabilitation Services and Inpatient Psychiatric projects;
      - (iv) American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority, for Megavoltage Radiation Therapy projects;
      - (v) American College of Radiology, for Positron Emission Tomography, Magnetic Resonance Imaging and Outpatient Diagnostic Center projects;

(Rule 0720-11-.01, continued)

- (vi) Community Health Accreditation Program, Inc., Accreditation Commission for Health Care, or another accrediting body with deeming authority for hospice services from CMS or state licensing survey, and/or other third party quality oversight organization, for Hospice projects;
  - (vii) Behavioral Health Care accreditation by the Joint Commission for Nonresidential Substitution Based Treatment Center, for Opiate Addiction projects;
  - (viii) American Society of Transplantation or Scientific Registry of Transplant Recipients, for Organ Transplant projects;
  - (ix) Joint Commission or another appropriate accrediting authority recognized by CMS, or other nationally recognized accrediting organization, for a Cardiac Catheterization project that is not required by law to be licensed by the Department of Health;
  - (x) Participation in the National Cardiovascular Data Registry, for any Cardiac Catheterization project;
  - (xi) Participation in the National Burn Repository, for Burn Unit projects;
  - (xii) Community Health Accreditation Program, Inc., Accreditation Commission for Health Care, and/or other accrediting body with deeming authority for home health services from CMS and participation in the Medicare Quality Initiatives, Outcome and Assessment Information Set, and Home Health Compare, or other nationally recognized accrediting organization, for Home Health projects; and
  - (xiii) Participation in the National Palliative Care Registry, for Hospice projects.
- (h) For Ambulatory Surgical Treatment Center projects, whether the applicant has estimated the number of physicians by specialty expected to utilize the facility, developed criteria to be used by the facility in extending surgical and anesthesia privileges to medical personnel, and documented the availability of appropriate and qualified staff that will provide ancillary support services, whether on- or off-site.
- (i) For Cardiac Catheterization projects:
  - 1. Whether the applicant has documented a plan to monitor the quality of its cardiac catheterization program, including but not limited to, program outcomes and efficiencies;
  - 2. Whether the applicant has agreed to cooperate with quality enhancement efforts sponsored or endorsed by the State of Tennessee, which may be developed per Policy Recommendation; and
  - 3. Whether the applicant will staff and maintain at least one cardiologist who has performed 75 cases annually averaged over the previous 5 years (for an adult program), and 50 cases annually averaged over the previous 5 years (for a pediatric program).
- (j) For Open Heart projects:



(Rule 0720-11-.01, continued)

1. Whether the applicant will staff with the number of cardiac surgeons who will perform the volume of cases consistent with the State Health Plan (annual average of the previous 2 years), and whether the applicant will maintain this volume in the future;
  2. Whether the applicant will staff and maintain at least one surgeon with 5 years of experience;
  3. Whether the applicant will participate in a data reporting, quality improvement, outcome monitoring, and peer review system that benchmarks outcomes based on national norms, with such a system providing for peer review among professionals practicing in facilities and programs other than the applicant hospital (demonstrated active participation in the STS National Database is expected and shall be considered evidence of meeting this standard);
- (k) For Comprehensive Inpatient Rehabilitation Services projects, whether the applicant will have a board-certified physiatrist on staff (preferred);
- (l) For Home Health projects, whether the applicant has documented its existing or proposed plan for quality data reporting, quality improvement, and an outcome and process monitoring system;
- (m) For Hospice projects, whether the applicant has documented its existing or proposed plan for quality data reporting, quality improvement, and an outcome and process monitoring system;
- (n) For Megavoltage Radiation Therapy projects, whether the applicant has demonstrated that it will meet the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO), National Cancer Institute (NCI), or a similar accrediting authority;
- (o) For Neonatal Intensive Care Unit projects, whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring system; whether the applicant has documented the intention and ability to comply with the staffing guidelines and qualifications set forth by the Tennessee Perinatal Care System Guidelines for Regionalization, Hospital Care Levels, Staffing and Facilities; and whether the applicant will participate in the Tennessee Initiative for Perinatal Quality Care (TIPQC);
- (p) For Nursing Home projects, whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring systems, including in particular details on its Quality Assurance and Performance Improvement program. As an alternative to the provision of third party accreditation information, applicants may provide information on any other state, federal, or national quality improvement initiatives;
- (q) For Inpatient Psychiatric projects:
1. Whether the applicant has demonstrated appropriate accommodations for patients (e.g., for seclusion/restraint of patients who present management problems and children who need quiet space; proper sleeping and bathing arrangements for all patients), adequate staffing (i.e., that each unit will be staffed with at least two direct patient care staff, one of which shall be a nurse, at all

(Rule 0720-11-.01, continued)

- times), and how the proposed staffing plan will lead to quality care of the patient population served by the project;
  2. Whether the applicant has documented its existing or proposed plan for data reporting, quality improvement, and outcome and process monitoring system; and
  3. Whether an applicant that owns or administers other psychiatric facilities has provided information on satisfactory surveys and quality improvement programs at those facilities.
- (r) For Freestanding Emergency Department projects, whether the applicant has demonstrated that it will satisfy and maintain compliance with standards in the State Health Plan;
  - (s) For Organ Transplant projects, whether the applicant has demonstrated that it will satisfy and maintain compliance with standards in the State Health Plan; and
  - (t) For Relocation and/or Replacement of Health Care Institution projects:
    1. For hospital projects, Acute Care Bed Need Services measures are applicable; and
    2. For all other healthcare institutions, applicable facility and/or service specific measures are applicable.
  - (u) For every CON issued on or after the effective date of this rule, reporting shall be made to the Health Services and Development Agency each year on the anniversary date of implementation of the CON, on forms prescribed by the Agency. Such reporting shall include an assessment of each applicable volume and quality standard and shall include results of any surveys or disciplinary actions by state licensing agencies, payors, CMS, and any self-assessment and external peer assessment processes in which the applicant participates or participated within the year, which are relevant to the health care institution or service authorized by the certificate of need. The existence and results of any remedial action, including any plan of correction, shall also be provided.
  - (v) HSDA will notify the applicant and any applicable licensing agency if any volume or quality measure has not been met.
  - (w) Within one month of notification the applicant must submit a corrective action plan and must report on the progress of the plan within one year of that submission.
- (4) Contribution to the Orderly Development of Adequate and Effective Healthcare Facilities and/or Services. The contribution which the proposed project will make to the orderly development of an adequate and effective health care system may be evaluated upon the following factors:
    - (a) The relationship of the proposal to the existing health care system (for example: transfer agreements, contractual agreements for health services, the applicant's proposed TennCare participation, affiliation of the project with health professional schools);
    - (b) The positive or negative effects attributed to duplication or competition; and

(Rule 0720-11-.01, continued)

- (c) The availability and accessibility of human resources required by the proposal, including consumers and related providers.
- (5) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, The Agency may consider, in addition to the foregoing factors, the following factors:
  - (a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change to the proposed new site.
  - (b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.
  - (c) Quality of Health Care to be provided. The applicant should show the quality of health care to be provided will be served at least as well as the original site.
  - (d) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.
- (6) Certificate of need conditions. In accordance with T.C.A. § 68-11-1609, The Agency, in its discretion, may place such conditions upon a certificate of need it deems appropriate and enforceable to meet the applicable criteria as defined in statute and in these rules.

**Authority:** T.C.A. §§ 4-5-202, 4-5-208, 68-11-1605, 68-11-1609, and 2016 Tenn. Pub. Acts Ch. 1043.

**Administrative History:** Original rule filed August 31, 2005; effective November 14, 2005. Emergency rule filed May 31, 2017; effective through November 27, 2017.

**CERTIFICATE OF NEED  
REVIEWED BY THE DEPARTMENT OF HEALTH  
DIVISION OF POLICY, PLANNING AND ASSESSMENT  
615-741-1954**

**DATE:** March 31, 2018

**APPLICANT:** Memorial North Park d.b.a. CHI Memorial Hospital Hixson  
2051 Hamill Road  
Hixson, TN 37343

CN1801-002

**CONTACT PERSON:** Janice Dyer  
CHI Memorial Health Care  
2525 deSales Ave.  
Chattanooga, TN 37404  
423-495-6260

**COST:** \$8,468,323

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In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

**SUMMARY:**

The applicant, Memorial North Park d.b.a. CHI Memorial Hospital-Hixson (CHI) is filing a Certificate of Need application seeking to establish linear accelerator services at its campus located at 2051 Hamill Road, Hixson, TN in Hamilton County. CHI Memorial Hixson is a satellite facility of CHI Memorial Hospital-Chattanooga. If approved, CHI Memorial-Chattanooga will decommission one of its linear accelerators at its downtown campus at 2525 deSales Avenue, Chattanooga, thereby redirecting a portion of the existing capacity to the CHI Hixson campus.

CHI Memorial Hospital-Hixson is a 74 bed satellite hospital of CHI Memorial-Chattanooga, and is located eight miles from the Chattanooga campus. The Memorial hospitals are owner by Catholic Health Initiatives (CHI), a non-for-profit system with over 100 hospitals located across 17 states.

The total project cost is estimated at \$8,468,322.

**GENERAL CRITERIA FOR CERTIFICATE OF NEED**

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

**NEED:**

CHI Hixson seeks approval to establish linear accelerator (LA) services at the Hixson, TN campus. Simultaneously, one of the existing LA units at the CHI Chattanooga campus will be taken out of service. This arrangement will not add LA capacity to the service area and will not duplicate services, but rather provide radiation therapy to a broader cancer care patient base.



The applicant's service area includes Hamilton, Rhea, Marion, and Sequatchie Counties. According to the 2016 Joint Annual Report for Hospitals, approximately 92% of CHI Hixson's admitted patients resided in the service area.

The following chart contains the population projections for the applicant's primary service area counties.

**Primary and Secondary Service Area Population Projections for 2018-2022**

County	2018 Population	2022 Population	% Increase/ (Decrease)
Hamilton	362,471	374,738	3.4%
Marion	29,810	30,405	2.0%
Rhea	34,582	35,833	3.6%
Sequatchie	16,399	17,478	6.6%
<b>Total</b>	<b>443,262</b>	<b>458,454</b>	<b>3.9%</b>

Source: *Tennessee Population Projections 2018-2022, June 2013 Revision, Tennessee Department of Health, Division of Policy, Planning, and Assessment*

The applicant has declared a 15 county service area with no existing LA units in this area. However, the Standard and Criteria for Megavoltage Radiation services defines the service area by contiguous counties. There are 7 linear accelerators in the county service area.

**2016 Linear Accelerator Utilization in the Service Area**

Facility	County	# of Units	Treatments	Ave. per Unit
Erlanger Medical Center	Hamilton	2	11238	5619
Memorial Hospital	Hamilton	3	21187	7062
Parkridge Hospital	Hamilton	2	2268	1134
<b>Total</b>		<b>7</b>	<b>34693</b>	<b>4956</b>

Source: *HSDA Equipment Utilization 7-17-2017*

CHI Memorial-Chattanooga's radiation therapy treatments have increased from 15,796 procedures in 2014, to 21,187 procedures in 2016, a 34% increase. According to the HSDA Equipment Registry, CHI-Chattanooga performed the second highest number of radiation treatments in the state for 2016.

CHI Chattanooga's oldest linear accelerator was placed in service in 2000 and is in need of replacement. While it is recognized that replacing this unit in the same downtown campus could be accomplished without CON approval, Memorial Hospital desires to establish a new LA unit at the Hixson campus which will improve access to a wider population of patients. The applicant states that in 2017, 459 patients who resided in the Hixson service area were treated at the downtown campus. Offering radiation services at the Hixson location would provide much better access to these patients.

To establish this new service, a new state of the art Varian True beam linear accelerator would be installed at the Hixson campus, while the oldest LA at the downtown campus would be decommissioned and taken out of service, leaving two units at that location. The current total of three LA units for Memorial Hospitals would be maintained between the two campuses.

The 2006-2010 rate Cancer incidence per county is provided in the following chart.

**County Cancer Incidence Rate  
per 100,000 for**

Hamilton	499
Marion	553
Rhea	522
Sequatchie	535
<b>Average County Rate</b>	527
<b>Tennessee Rate</b>	494

*Source: Office of Cancer Surveillance, Tennessee Department of Health*

**TENNCARE/MEDICARE ACCESS:**

Medicare provider number: 44-0061: Medicaid/TennCare provider number: 0440091

<b>Payor Source</b>	<b>Proj Gross Revenue</b>	<b>As a % of total</b>
Medicare	\$17,326,582	64.83%
TennCare/Medicaid	\$942,949	3.53%
Commercial	\$7,762,216	29%
Self-Pay		00%
Charity Care	\$662,485	2.48%
Other	\$32,032	.12%

**ECONOMIC FACTORS/FINANCIAL FEASIBILITY:** The Department of Health, Division of Policy, Planning, and Assessment has reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and the projections are correct based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

This project will be funded by the parent company, Catholic Health Initiatives. See Attachment B Economic Feasibility 2 for funding letter from the Chief Financial Officer.

**Project Costs Chart:** The Project Cost Chart is located in Supplement 1 23R of the application. The total estimated project cost is \$8,420,392. Fixed equipment costs for the new linear accelerator are \$3,337,416.

**Historical Data Chart:** The Historical Data chart for CHI Memorial Chattanooga is included in Supplemental 25R of the application. Memorial Chattanooga, operating with three LA units has shown a 34% increase in radiation treatments between 2014 and 2016. The applicant expects the demand for radiation therapy to continue.

**Projected Data Chart:** The Projected Data Chart is located in Supplemental 1 28R of the application. The applicant projects 7,214 and 7,326 treatments in years one and two, with net operating income of \$2,795,497 and \$2,738,516 each year, respectively.

The estimated year one average gross charge per treatment is \$3,705. The estimated year two average gross charge is \$3,890. These charges correspond with data for treatments and total gross charges on the Projected Data Chart in Supplemental 1, 28R. The projected charges for Hixson are slightly lower than the historical charges for Memorial Chattanooga, as Hixson will not be providing the more specialized HDR and SRS exams.

<b>Average Charge Comparison 2016</b>	<b>Average Charge</b>
Memorial Hospital	\$3,421
Erlanger	\$1,785
Parkridge	\$2,294

The project includes approximately 1301 square feet of renovated space and 3,431 square feet of new construction with an average square footage cost of \$591.69 per sq. ft. This figure is above the average 3<sup>rd</sup> quartile cost.

#### **CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:**

The new LA unit in Hixson will provide conventional EBRT, IMRT and SBRT treatments. While the equipment to be purchased has the capability to provide SRS services, those treatments will be maintained at the Chattanooga campus and will not be performed at the Hixson location. A full continuum of cancer services will remain available at the Memorial Chattanooga hospital, while the unit at Hixson will offer less radiation service types; it will provide useful treatment access to patients that would currently have to navigate to the downtown hospital campus.

The staff for the radiation service will include a board-certified oncologist, physicist, dosimetrist, registered nurses, and radiation therapists. A projected staffing chart is located below.

<b>Position</b>	<b>Existing FTE's</b>	<b>Proposed FTE's Yr. 1</b>
Ph.D. Medical Physicist	4	1
Dosimetrist	4	1
Radiation Therapist	13	2
Nursing	4	1
Clerical	6	2
Programming	0	1

The applicant believes there are only positive effects including improved patient access by providing radiation therapy at multiple locations. The project will replace an older, less advanced unit with a highly specialized state of the art unit. The unit does not duplicate or add capacity in the service area.

The applicant includes a Project Completion Forecast Chart detailing a Final Report Form submittal of January 2021.

CHI Memorial currently has agreements with Chattanooga State Technical Institute for the training of radiation technologist students and also training for dosimetrists with the Radiation Therapy University Technology Dosimetry School of Dosimetry.

**Quality Improvements:**

Memorial Hixson is currently actively licensed with the Department of Health as a general acute care hospital. Memorial Department of Radiation Oncology is accredited by the Commission on Cancer and is currently seeking accreditation with the American Society of Radiation Oncology. Memorial Hixson is also accredited by the Joint Commission. This documentation is located in Attachment B Orderly Development 4A1 and 4B.

**SPECIFIC CRITERIA FOR CERTIFICATE OF NEED**

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

**MEGAVOLTAGE RADIATION THERAPY**

1. Utilization Standards for MRT Units.

- a. Linear Accelerators not dedicated to performing SRT and/or SBRT procedures:
  - i. **Full capacity of a Linear Accelerator** MRT Unit is 8,736 procedures, developed from the following formula: 3.5 treatments per hour, times 48 hours (6 days of operation, 8 hours per day, or 5 days of operation, 9.6 hours per day), times 52 weeks.
  - ii. **Linear Accelerator Minimum Capacity:** 6,000 procedures per Linear Accelerator MRT Unit annually, except as otherwise noted herein.
  - iii. **Linear Accelerator Optimal Capacity:** 7,688 procedures per Linear Accelerator MRT Unit annually, based on a 12% average downtime per MRT unit during normal business hours annually.
  - iv. An applicant proposing a new Linear Accelerator should project a minimum of at least 6000 MRT procedures in the first year of service in its Service Area, building to a minimum of 7,688 procedures per year by the third year of service and for every year thereafter.

*The applicant projects 7,214 treatments for year one at the Memorial Hixson location. At the Memorial Chattanooga campus, 25,341 treatments were performed on 3 LA units, or 8,447 treatments per unit. With one of the units at Chattanooga being decommissioned and a new one moved to the Hixson location, the applicant projects treatments above the 6000 minimum capacity.*

- b. For Linear Accelerators dedicated to performing only SRT procedures, full capacity is 500 annual procedures.

*This criterion is not applicable.*

- c. For Linear Accelerators dedicated to performing only SRT/SBRT procedures, full capacity is 850 annual procedures.

*This criterion is not applicable.*

- d. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for Linear Accelerators develop. An applicant must demonstrate that the proposed Linear Accelerator offers a unique and necessary technology for the provision of health care services in the proposed Service Area.

*Not applicable*

- e. Proton Beam MRT Units. As of the date of the approval and adoption of these Standards and Criteria, insufficient data are available to enable detailed utilization standards to be developed for Proton Beam MRT Units.

*This criterion is not applicable.*

2. Need Standards for MRT Units.

- a. For Linear Accelerators not dedicated solely to performing SRT and/or SBRT procedures, need for a new Linear Accelerator in a proposed Service Area shall be demonstrated if the average annual number of Linear Accelerator procedures performed by existing Linear Accelerators in the proposed Service Area exceeds 6,000.

**2016 Linear Accelerator Utilization in the Service Area**

Facility	County	# of Units	Treatments	Ave. per Unit
Erlanger Medical Center	Hamilton	2	11238	5619
Memorial Hospital	Hamilton	3	21187	7062
Parkridge Hospital	Hamilton	2	2268	1134
<b>Total</b>		<b>7</b>	<b>34693</b>	<b>4956</b>

*Source: HSDA Equipment Utilization 7-17-2017*

- b. For Linear Accelerators dedicated to performing only SRT procedures, need in a proposed Service Area shall be demonstrated if the average annual number of MRT procedures performed by existing Linear Accelerators dedicated to performing only SRT procedures in a proposed Service Area exceeds 300, based on a full capacity of 500 annual procedures.

*This criterion is not applicable.*

- c. For Linear Accelerators dedicated to performing only SRT/SBRT procedures, need in a proposed Service Area shall be demonstrated if the average annual number of MRT procedures performed by existing Linear Accelerators dedicated to performing only SRT/SBRT procedures in a proposed Service Area exceeds 510, based on a full capacity of 850 annual procedures.

*This criterion is not applicable.*

- d. Need for a new Proton Beam MRT Unit: Due to the high cost and extensive service areas that are anticipated to be required for these MRT Units, an applicant proposing a new Proton Beam MRT Unit shall provide information regarding the utilization and service areas of existing or planned Proton Beam MRT Units' utilization and service areas (including those that have received a CON), if they provide MRT services in the proposed Service Area and if that data are available, and the impact its application, if granted, would have on those other Proton Beam MRT Units.

*This criterion is not applicable.*

- e. An exception to the need standards may occur as new or improved technology and equipment or new diagnostic applications for MRT Units develop. An applicant must demonstrate that the proposed MRT Unit offers a unique and necessary technology for the provision of health care services in the proposed Service Area.

*The applicant will improve technology by decommissioning an older unit place in to service in 2000, and purchase a new unit with state of the art technology at the Hixson campus. No new capacity will be added to the service area.*

3. Access to MRT Units.

- a. An MRT unit should be located at a site that allows reasonable access for residents of the proposed Service Area.

*Approximately 37% of the Memorial Chattanooga's patients originate in the Hixson service area. Access will greatly improve for those patients when treatment is available at the Hixson Campus.*

- b. An applicant for any proposed new Linear Accelerator should document that the proposed location of the Linear Accelerator is within a 45 minute drive time of the majority of the proposed Service Area's population.

*The applicant's service area includes Hamilton, Rhea, Marion, and Sequatchie Counties. According to the 2016 Joint Annual Report for Hospitals, approximately 92% of CHI Hixson's admitted patients resided in the service area.*

- c. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRT units that service the non-Tennessee counties and the impact on MRT unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

*This criterion is not applicable no non service area counties have been included in the service area.*

- 4. Economic Efficiencies. All applicants for any proposed new MRT Unit should document that lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

*A team of oncologists, physicists, and administrative leaders researched all options and found the proposed Varian TrueBeam to be the most cost effective unit in replacing the oldest unit from the Chattanooga location.*

5. Separate Inventories for Linear Accelerators and for other MRT Units. A separate inventory shall be maintained by the HSDA for Linear Accelerators, for Proton Beam Therapy MRT Units, and, if data are available, for Linear Accelerators dedicated to SRT and/or SBRT procedures and other types of MRT Units.

*The applicant stated this section did not require a response by the applicant. However, the applicant is required to provide the HSDA with the requested data.*

6. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRT Unit is safe and effective for its proposed use.
  - a. The United States Food and Drug Administration (FDA) must certify the proposed MRT Unit for clinical use.

*The Varian TrueBeam received FDA approval in December of 2012.*

- b. The applicant should demonstrate that the proposed MRT Units shall be housed in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

*The applicant provides a letter from their architect, Earl Swenson Associates, in Attachment B-Economic Feasibility-1E, specifying the implementation of the project will comply with all Federal, State, and local codes, and manufacturers' specifications.*

- c. The applicant should demonstrate how emergencies within the MRT Unit facility will be managed in conformity with accepted medical practice. Tennessee Open Meetings Act and/or Tennessee Open Records Act.

*The applicant states they have institutional protocols in place to address emergency situations, and has included their Emergency Protocol documents as Attachment B-Need-1-6C in the application.*

- d. The applicant should establish protocols that assure that all MRT Procedures performed are medically necessary and will not unnecessarily duplicate other services.

*Memorial does not determine the medical needs of radiation treatment for patients. These decisions are made by the patient and their physician(s). Memorial's board certified radiation oncologists are responsible for entering all prescriptions for initiating radiation therapy treatments according to patient diagnosis and clinical eligibility. The applicant included their general protocols for Medical Necessity in Attachment B-Need-1-6D in the application.*

- e. An applicant proposing to acquire any MRT Unit shall demonstrate that it meets the staffing and quality assurance requirements of the American Society of Therapeutic Radiation and Oncology (ASTRO), the American College of Radiology (ACR), the American College of Radiation Oncology (ACRO) or a similar accrediting authority such as the National Cancer Institute (CNI). Additionally, all applicants shall commit to obtain accreditation from ASTRO, ACR or a comparable

accreditation authority for MRT Services within two years following initiation of the operation of the proposed MRT Unit.

*The applicant is currently accredited by the ACRO, and is currently obtaining accreditation with the American Society of Radiation Oncology, and adheres to these staffing guidelines.*

- f. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

*Memorial Hixson is a full service acute care hospital, thus emergency transfers are not appropriate. The applicant includes their Emergency Protocols in Attachment B-Need 1-6C.*

- g. All applicants should provide evidence of any onsite simulation and treatment planning services to support the volumes they project and any impact such services may have on volumes and treatment times.

*Treatment planning and simulation will be performed at Memorial Chattanooga. This will be a centralized treatment planning service with electronic medical records accessibility for the oncology staff at Hixson.*

7. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

*The applicant has and will continue to comply with this criterion.*

8. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

- a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

*Rhea, Marion, and Sequatchie Counties service areas are Medically Underserved Area.*

- b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

*Not Applicable*

- c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

*The applicant is contracted with both Medicare and multiple TennCare MCOs. The applicant does not participate in TennCare Select. The applicant explains that TennCare Select covers specific services for children less than 14 years of age, of which, CHI Memorial lacks the capability to offer services. These patients are appropriately referred to area providers.*